

INTERNATIONAL BUSINESS
FEASIBILITY OF FOREIGN DIRECT INVESTMENTS (FDI) IN NAMIBIA

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TITLE

FEASIBILITY OF FOREIGN DIRECT INVESTMENTS (FDI) IN NAMIBIA

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DECLARATION

This MBA Dissertation/Thesis is my own research investigation,
except where it is specifically indicated to the contrary in the text.

This MBA Dissertation has not been previously submitted to any tertiary institution.

A handwritten signature in cursive script, appearing to read 'M. Shikongo', is written over a horizontal line.

Ms M. Shikongo

SEPTEMBER 2003

CONTENTS

Abstract

CHAPTER 1: INTRODUCTION	1
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Executive Summary	1
1.1 Global Foreign Direct Investment (FDI)	25
1.2 Encouraging signs for FDI in Africa	26
1.3 Poverty reduction	30
1.3.1 Poverty situation in Southern Africa	31
1.4 Research Potential	33

CHAPTER 2: LITERATURE REVIEW	39
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2.1 Theory of Mercantilism	39
2.2 Theory of Neo-Mercantilism	40
2.3 Theory of Absolute Advantage	40
2.4 Theory of Comparative Advantage	40
2.5 Theory of Heckscher-Ohlin	41
2.6 Theory of Product Life-Cycle	42
2.7 Theory of New Trade	42
2.8 New Trade Theory: Application in Namibia	43
2.8.1 Administration of Act and Principles: Foreign Investments	43
2.8.2 Status Investments	45

CHAPTER 3: METHODOLOGY & DATA COLLECTION 48

3.1 Research Design: Methodology & Data Collection	48
3.2 Data Analysis	51

CHAPTER 4: RESULTS (OBSERVATIONS & FINDINGS) 52

4.1 General Characteristics of Enterprises in Sample	52
4.1.2 Personal Characteristics of Entrepreneurs	52
4.1.3 Financing	53
4.1.4 Problems Faced by Businesses	53
4.1.5 Support Services	54
4.1.6 Sustainability of Enterprises	54
4.2 General Characteristics of Enterprises	55
4.2.1 Size of Enterprises	55
4.2.2 Value of Assets	59
4.2.3 Age of Enterprises	60
4.2.4 Conduct of Businesses	61
4.2.5 Customers' Distance from Businesses	62
4.2.6 Registration of Businesses	63
4.2.7 Membership to Business Associations	64
4.3 Personal Characteristics of Entrepreneurs	64
4.3.1 Age of Entrepreneurs	65
4.3.2 Ownership and Management	65
4.3.3 Gender Distribution	67
4.3.4 Business Expansion	67
4.3.5 Educational Level	68
4.3.6 Skills Training	71

Chapter 4 continues...

4.4 Financing of Enterprises	73
4.4.1 Start-up Costs & Sources of Start-up Capital	73
4.4.2 Loans	76
4.4.3 Saving	82
4.5 Problems Perceived in Businesses	83
4.6 Support Services	86
4.6.1 Awareness of Support Services	89
4.7 Indicators of Sustainability of SMEs	91
4.7.1 Change in Turnover & Employment	91
4.7.2 Change in Household Standard of Living	92
4.7.3 Change in Saving	93
4.7.4 Growth in Employment	94
4.7.5 Pushed or Pulled	94
4.8 Government Policy & Programme on Enterprise Development	96
4.8.1 Size of Sector	96
4.8.2 Activities & Income	97
4.8.3 Female Entrepreneurs	100
4.8.4 Constraints to Growth	100
4.8.5 Finance	101
4.8.6 Markets	102
4.8.7 Purchasing	104
4.8.8 Technology	105
4.8.9 Training	106
4.8.10 Business Support	107
4.9 Pro-active Programmes	109
4.9.1 Finance	109
4.9.2 Market Access	109
4.9.3 Technology Transfer	110
4.9.4 Purchasing	110
4.9.5 Sites & Premises	110
4.9.6 Training	111

CHAPTER 5: RECOMMENDATIONS & CONCLUSIONS 112

5.1 Global Economic Overview	112
5.2 Namibian Economy	114
5.3 Export Diversification	118
5.4 Assets of Financial Institutions	119
5.5 Credit Developments	121
5.6 Regional Competitiveness Profile	124
5.7 Balance of Payments	126
5.7.1 Capital & Financial Account	127
5.7.2 Foreign Trade & Payments	129
5.8 External Debt	131
5.9 Namibia's International Investment Position	134
5.10 Namibian Budget Expenditure	135
5.11 Key Macro-Economic Indicators	136
5.11.1 Investment & Consumption	137
5.12 South African Economy	137
5.13 Southern African Development Corporation (SADC)	138
5.14 Prerequisites for Services Sector Development	139
5.14.1 Infrastructure & Human Capital	139
5.14.2 Macro-Economic Policy Framework	140
5.15 Current Policy Reform & Initiatives	141
5.16 Namibian Inflation	142
5.17 Challenges of Economic Diversification	143
5.17.1 Services Sector in Namibia	145
5.17.2 Tourism Sector	145
5.17.3 Importance of Diversification	146
5.18 Key Challenges to Diversification	147
5.18.1 Trade Finance	147
5.18.2 Market Intelligence	148
5.18.3 Skilled Labour	148

Chapter 5 continues...

5.18.4 Domestic Market Size	149
5.18.5 Technology Transfer	150
5.18.6 Trade Barriers	150
5.19 Government Programme for Diversification	152
5.19.1 Small and Medium Enterprises (SME) Policy	152
5.19.2 Financing Programmes for SMEs	153
5.20 Export Processing Zone (EPZ)	154
5.20.1 International Trade Policy Strategy	155
5.21 Namibian Post Independence Economy	156
5.21.1 The Real Economy	157
5.21.2 Gross National Income	157
5.21.3 Namibian Income Distribution	158
5.21.4 Savings & Investment Balance	159
5.21.5 Employment Situation	160
5.22 External Debt	161
5.23 International Investment Position	161
5.24 Exchange Rate Development	162
5.25 International Economic Issues	163
5.25.1 Southern African Customs Union (SACU)	163
5.25.2 SACU- USA Trade Relations	164
5.25.3 Southern African Development Corporation (SADC)	165
5.25.4 Committee of Central Bank Governors (CCBG)	166
5.25.5 Trade Protocol	167
5.25.6 African Union (AU)	167
5.25.7 New Partnership for African Development (NEPAD)	168
5.25.8 Common Monetary Area (CMA)	170
5.25.9 Association of Central African Banks	170
5.25.10 European Union and African, Caribbean and Pacific (EU-ACP)	171

Chapter 5 continues...

5.26 Public Finance	171
5.27 African Competitiveness	172
5.27.1 External Sector	173
5.27.2 Government Expenditure	173
5.27.3 Namibian Budget Deficit	174
5.27.4 Government Debt	175

CHAPTER 6 CONCLUSIONS	176
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6.1 Overall Attractiveness of Namibia for FDI	176
6.2 Promote Africa Programme	178

BIBLIOGRAPHY	180
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ANNEX I: Survey to Town Clerk of Windhoek

ANNEX II: Survey on Namibian Central Business Enterprises

ANNEX III: Republic of Namibia Foreign Investment Act No 27, 1990

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ABSTRACT

This MBA dissertation examines the 'Feasibility & Attractiveness of FDI in emerging Namibian market', and the overall impact on the country's international competitiveness as World Trade Organization (WTO) and SADC member. One of the most sensitive areas in international economics is Foreign Direct Investment (FDI) which need to be considered when Multinational Corporations (MNCs) intend seeking exposure to emerging markets in establishing a subsidiary company in a developing country. Developing countries fear exploitation and inadequate access to foreign capital, technology, marketing & management skills.

Many countries eg. Indonesia and Russia have accumulated huge foreign indebtedness on which it is difficult to pay even the interest. High indebtedness, high inflation and high unemployment in several countries have resulted in unstable governments exposing foreign firms to the risks of expropriation, nationalization, and limits on profit repatriation. High indebtedness and political instability decrease the value of a country's foreign currency. Foreign firms want hard currency generation with profit repatriation rights, unavailable in many markets.

Foreign -government entry requirements and bureaucracy enforce foreign entry regulations on firms eg. joint ventures with majority share to domestic partner, high number of employed nationals, transfer of technological skills and profit repatriation. Governments often impose high tariffs or resort to invisible trade barriers to protect their industries. The Namibian government can regulate the operations of foreign firms in various ways. Analysis of economic and development factors affecting FDI which negatively or positively influence future investments in the country are examined.

Namibia has a good track record of economic and infrastructure development progress. The long-term Development strategy, Vision 2020, aims to achieve developed nation status in both economic and development sectors by the year 2020.

Past economic crisis and the exposure to underlying structural weaknesses in financial and corporate sectors, threatened to undermine the country's achievements. Selective capital controls were introduced in an effort to limit currency volatility. additional to the structural reform measures implemented in corporate & financial sectors.

One of the key determinants of a sustainable economy is the diversification of its industries. A more balanced economy prevents dependence on any particular sector or number of sectors of the economy and stabilizes economic fluctuations. Diversified industries bring new money into an economy, expand the tax base and provide increased support for infrastructure development projects such as roads, schools, community services and locally dependent small businesses. It is also believed that there is diversified linkages across the sectors of the economy. This type of economy is expected to generate more employment and self-sustaining prerequisite for continued growth in real incomes and employment, which provide a basis for poverty reduction.

xii.

The research highlights some of the policies and initiatives, which the Namibian government has put in place since Independence to broaden the manufacturing base of the country and to promote export diversification. The aim of this study is to assess whether these efforts to promote diversification have borne the desired results. In other words, has there been a structural shift in the country's production structure during the period under consideration?

The research design or overall strategic choice is based on a combination of exploratory & descriptive method due to the structured nature of the research problem. Qualitative & quantitative methods are used for data collection based on economic & development factors influencing FDI in the country.

The Ministry of Finance recently submitted its Annual Report, including its annual accounts and reports on its operations and affairs and the general state of the Namibian economy. These Reports and reports accumulated during interviews, as well as data-collection during mail surveys will also be analyzed in an attempt to evaluate Namibia's overall attractiveness for FDI.

Exploration: Qualitative methods were employed. I augmented my knowledge of FDI in Namibia by personally interviewing managers and CEOs from government, local and foreign companies and developed questionnaires as a mail survey.

Questionnaire design: A self-administered questionnaire secured feedback on FDI in Namibia. Some questions for this instrument were based on the investigation of Central Business District Enterprises and from executive interviews. A comment / suggestion section was included.

Pilot Test: I tested the questionnaire with a small sample of CEO's. Revision of the questionnaire was undertaken and it was amended appropriately, after which the final questionnaire was submitted using the mail survey.

Evaluation of Non-response bias: Random sample of non-respondents. Sample frame was established. Non-respondents were interviewed telephonically and their responses were used in a statistical comparison of responses - respondents vs non- respondent samples were taken.

In recognition of the critical role SMEs can play in the socio-economic development of the country and economic development of the country and economic diversification, the Government has put in place policies and programmes for the development of SMEs. The main thrust is to increase the rate of growth of existing businesses to ensure the employment of more people. The second thrust is the reduction of business failures while increasing the development of new business formations. The third thrust is the diversification of the activities of the sector - includes continuing efforts to improve and empowering environment, including pro-active programme and institutional support. More specifically, the assistance programmes for SMEs target the critical areas of access to finance, skills development, marketing, technology transfer, management and institutional support.

xiii.

Such a comprehensive policy framework is expected to enhance the economic role of SMEs not only in terms of their contribution to employment and poverty reduction, but also in terms of contribution to economic diversification. The development and promotion of the SME sector is an integral part of the Special Industrialisation Programme (SIP), which is designed to render practical support to viable business ideas and plans. The long-term objective of this programme is to promote export-oriented production and where appropriate import substitution.

International businesses like multinational companies participate in the foreign exchange market to facilitate international trade & investment, to invest spare cash in short-term money market accounts in Namibia & to engage in currency speculation.

FDI can make positive contributors to Namibia by supplying the capital, technology and management resources that would otherwise not be available. These endorsements can positively influence the overall economic status of Namibia people.

Benefits of the study can translate into effective marketing of Namibia as WTO and SADC member and to encourage FDI investor confidence & growth in Namibia. High levels of FDI can translate into positive outputs in terms of economic & growth potential FDI in Namibia, strong global trade and accelerated growth potential in developing African countries.

Namibia has recently joined the WTO as member country, does it have a sustainable economy & the infrastructure to attract FDI?

This research has confidence in the potential for improving economic & development factors that will invite FDI in Namibia.

This research desires information on the 'Feasibility & Attractiveness of FDI in Namibia and the overall impact on the country's international competitiveness.' As researcher, I intend to identify the economic and development factors affecting FDI in Namibia.

CHAPTER 1

INTRODUCTION

Executive summary

This MBA dissertation examines 'Feasibility & Attractiveness of FDI in the emerging Namibian market and the overall impact on the country's international competitiveness'. An analysis of economic and development factors affecting FDI are presented, which negatively or positively influence future investments in the country. Benefits of the study can translate into positive outputs in terms of economic & growth potential of FDI in Namibia, strong global trade and accelerated growth potential in developing countries.

Namibia has a good track record of economic and development progress. The long-term development strategy, **Vision 2020**, aims to achieve developed nation status in both economic and development sectors by the year 2020.

Past economic crisis and the exposure to underlying structural weaknesses in financial and corporate sectors, threatened to undermine the country's achievements. Selective capital controls were introduced in an effort to limit currency volatility, additional to the structural reform measures implemented in corporate & financial sectors.

Developing Africa witnessed strong global trade & accelerated growth potential in fast expanding economies in the year 2000, accounting a GDP growth potential in the range of 3-4% & expansion of 7%. Exports and imports recorded in 1990-2000 increased considerably. Throughout the 1990-2000 period, Namibia rates amongst the leading traders in commercial services the most dynamic exports and imports growing at a double-digit rate in Africa. As a result, the share of the developing countries like Namibia in world trade and output continues to increase, due to their ability to expand their role in world exports.

International businesses like multinational companies participate in foreign exchange markets to facilitate international trade & investment, to invest spare cash in short-term money market accounts in Namibia & to engage in currency speculation.

The purpose of FDI is to move capital internationally & share tangible assets eg. technology, managerial capabilities, marketing skills and assets. The reason for the low or no financial capital in the initial stages is that the parent company can reduce the exchange risk that its foreign activities will be exposed to. A good strategy for multinational companies (MNCs) is to take on foreign –current liabilities as well, by borrowing in foreign currencies to finance subsidiaries.

Direct investment is more than capital movement and in many cases it begins with little or no net flow of financial capital or initial capital can be borrowed exclusively in the host country Namibia, adding only its brand name, managerial formulas, and other assets of the less tangible variety. Once the subsidiary becomes profitable, it grows from reinvested internal profits and newly borrowed funds, while sending a part of the profits back to the MNC whose financial investments were hard to see. The MNC should employ a FDI policy of investment in Namibia by intending to build operations through subsidiaries resulting in significant ownership in Namibian industry thereby becoming a multinational in MNC operations.

The developing government argument is a valid reason why many low-income countries like Namibia receive between one quarter & three fifths of their government revenue from trade tariffs with a higher dependence on customs than in equally trade oriented high-income countries. In principle the developing country can use tariffs to maximize social gains. For each sovereign nation there is not only a separate foreign currency, but also a separate government with its own public spending and power to tax. Differences in national tax policies are as a rule more pronounced than differences between tax policies of states, provinces or cities.

Development factors like economic infrastructure in Namibia's Central Business District are analysed, scrutinized and presented to provide information to possible investors enabling them to make informed decisions when investing in Namibia. The rise of Namibian exports is due to improved development pertaining to improved infrastructure eg. transport, energy supplies & telecommunications, sectors experiencing accelerated growth, by the increased telephone mainlines and telecommunications networks.

On the political front Namibia is a highly stable country due to political reconciliation efforts. FDI can make positive contributions to Namibia by supplying the capital, technology and management resources that would otherwise be unavailable while simultaneously benefit financially from the country's rich resource possibilities.

Problem Statement

Backward vertical FDI in Namibia provides material inputs into down stream stages for a firm's domestic production process. It is a method to reducing a firm's exposure to the risks that arise from investments in specialized assets.

Namibia has recently joined the World Trade Organisation (WTO) as a member country, but does it have the infrastructure to attract FDI? The country also experiences a shortage of skilled labor and ineffective management problems raising the question of viability and implications of of these factors on FDI in the country.

This research desires information on the 'Feasibility & Attractiveness of FDI in Namibia and the overall impact on the country's international competitiveness,' by analyzing the state of the Namibian economy.

Primary research objectives

The purpose of this research is to examine the 'Feasibility & Attractiveness of FDI in emerging Namibian market', and the overall impact on the country's international competitiveness as World Trade Organization (WTO) and SADC member. Specifically, as researcher, I intend to identify the economic and development factors affecting FDI in Namibia.

One of the most sensitive areas in international economics is Foreign Direct Investment (FDI) which need to be considered when Multinational Corporations (MNCs) intend seeking exposure to emerging markets in establishing a subsidiary company in a developing country. Developing countries fear exploitation and inadequate access to foreign capital, technology, marketing & managerial skills. These issues need to be analysed in view of governmental policies towards FDI.

The research highlights some of the policies and initiatives, which the Namibian government has put in place since Independence to broaden the manufacturing base of the country and to promote export diversification. The aim of this study is to assess whether these efforts to promote diversification have borne the desired results. In other words, has there been a structural shift in the country's production structure during the period under consideration?

Literature Review

The first theory of international trade emerged in England in the mid-16th century. Referred to as Mercantilism, its principle assertion was that gold and silver were the mainstays of national wealth and essential to vigorous commerce. The main tenet of Mercantilism was that it was in a country's best interest to maintain a trade surplus, to export more than it imported. By doing so a country would accumulate gold and silver and increase its national wealth and prestige. As the English Mercantilist writer Thomas Mun put it in 1630: 'The ordinary means therefore to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value.' (Hill, 2002).

Consistent with this belief, the mercantilist doctrine advocated government intervention to achieve a surplus in the balance of trade. The mercantilists saw no virtue in a large volume of trade. Rather, they recommended policies to maximize exports and minimize imports. To achieve this, imports were limited by tariffs and quotas, and exports were subsidized.

Propagated in the 16th and 17th centuries, Mercantilism advocated that countries should simultaneously encourage exports and discourage imports. Although Mercantilism is an old and largely discredited doctrine, its echoes remain in modern political debate and in the trade policies of many countries. For example, Jarl Hagelstam, a director at the Finnish Ministry of Finance, has observed that in most trade negotiations: 'The approach of individual negotiating countries, both industrialized and developing, has been to press for trade liberalization in areas where their own comparative competitive advantage are the strongest, and to resist liberalization in areas where they are less competitive and fear that imports would replace domestic production.' (Hill, 2002). Hagelstam attributes this strategy by negotiating countries to a neo-mercantilist belief held by politicians of many nations. This belief equates political power with economic power and economic power with a balance-of-trade surplus. Thus the trade strategy of many nations is designed to simultaneously boost exports and limit imports.

Proposed in 1776, Adam Smith's Theory of Absolute Advantage was the first to explain why unrestricted free trade is beneficial to a country. Free trade occurs when a government does not attempt to influence through quotas and duties what its citizens can buy from another country or what they can produce and sell to another country. Smith argued that the invisible hand of the market mechanism, rather than government policy, should determine what a country imports and what it exports. His arguments implied that such a *laissez-faire* stance toward trade was in the best economic interest of the country.

Building on Smith's work are two additional theories. One is the Theory of Comparative Advantage, advanced by the 19th century English economist David Ricardo. This theory is the intellectual basis of the modern argument for unrestricted free trade.

In the 20th century, Ricardo's work was refined by two Swedish economists, Eli Heckscher and Bertil Ohlin, whose theory is known as the Heckscher-Ohlin Theory.

The great strength of the theories of Smith, Ricardo, and Heckscher-Ohlin is that they identify with precision the specific benefits of international trade. Common sense suggests that some international trade is beneficial. These theories go beyond this common sense notion, however, to show why it is beneficial for a country to engage in international trade. The gains arise because international trade allows a country to specialize in the manufacture and export of products that can be produced most efficiently in that country, while importing products that can be produced more efficiently in other countries.

Their theories also explain the pattern of international trade observed in the world economy. David Ricardo's Theory of Comparative Advantage offers an explanation in terms of international differences in terms of labor productivity.

The more sophisticated Heckscher-Ohlin Theory emphasizes the interplay between the proportions in which the factors of production (such as land, labor and capital) are available in different countries and the proportion in which they are needed for producing particular goods. This explanation rests on the assumption that different countries have different endowments of the various factors of production. Tests of this Theory, however suggest that it is a less powerful explanation of real-world trade patterns than once thought.

The flaw of Mercantilism was that it viewed trade as a zero-sum game, where a gain by one country results in a loss by another. It was left to Smith and Ricardo to point out the short-sightedness of this approach in demonstrating that international trade is a positive-sum game, in which all the global economy can benefit.

One early response to the failure of the Heckscher-Ohlin Theory to explain the observed pattern of international trade was the Product life-cycle Theory. Proposed by Raymond Vernon, this theory suggests that early in their life-cycle, most new products are produced in and exported from the country in which they were developed. As the new product becomes widely accepted internationally, production starts in other countries. As a result, the theory suggests, the product may ultimately be exported back to the country of innovation.

In a similar vein, during the 1980s, economists such as Paul Krugman of the Massachusetts Institute of Technology developed the New Trade Theory. New Trade Theory stresses that in some cases countries specialize in the production and export of particular products not because of underlying differences in factor endowments, but because in certain industries the world market can support only a limited number of firms (e.g. the commercial aircraft industry). In such industries, firms that enter the market first build a competitive advantage that is difficult to challenge. Thus the observed pattern of trade between nations may in part be due to the ability of firms to capture first-mover advantages.

In a work related to the New Trade Theory, Michael Porter of the Harvard Business School has developed the Theory of National Competitive Advantage, attempting to explain why particular nations achieve international success in particular industries. Like the New Trade Theorists, in addition to factor endowments, Porter points out the importance of country factors such as domestic demand and domestic rivalry in explaining a nation's dominance in the production and export of particular products.

Although all these theories agree that international trade is beneficial to a country, they lack agreement in their recommendations for government policy. Mercantilism make a crude case for government in promoting exports and limiting imports. The theories of Smith, Ricardo, and Heckscher-Ohlin form part of the case for unrestricted free trade. The argument for unrestricted free trade is that both import control and export incentives (such as subsidies) are self-defeating and result in wasted resources.

Both the New Trade Theory and Porter's Theory of National Competitive Advantage can be interpreted as justifying some limited and selective government intervention to support the development of certain export-oriented industries. Hill stated that the volume of cross-border trade and investment has been growing more rapidly than global output. (Hill, 2002). Advancement in economic growth led to joining the developed world. State owned businesses privatize, wide spread deregulation and markets open to more competition. The Global Trade Race started and countries like Namibia joined the race in a bid to win more markets.

Global (FDI) flows are likely to decline by 20 % in 2003, to US\$760 billion. This is according to projections released by the United Nations Conference on Trade and Development (Unctad), during the launch of the World Investment Report in Windhoek.

'Foreign direct investment plays a key role in the globalization process, generating both challenges and opportunities for countries' said Jacqueline Baddock, UN Resident Representative in Namibia, at the local launch of the World Investment Report. According to Unctad this year's projected dip is a result of a recent decline in cross-border mergers and acquisitions (M&As), which account for the bulk of FDI (<http://www.unctad.org>)

UNCTAD's World Investment Report 1998 highlights high rates of return for FDI in Africa, and features Africa's FDI frontrunning countries. FDI by transnational corporations (TNCs) into Africa is low, but there are signs of rising levels for the future. Growth, economic reform and improvements in the regulatory frameworks of many countries in the continent are being increasingly recognized by both domestic and foreign investors, according to the World Investment Conference on Trade and Development (UNCTAD).

The Foreign Investment Act commenced on 7 July 1992 as amended by Act No. 24, 1993, Foreign Investment Amendment Act 1993. The Act makes provision for the promotion of foreign investments in Namibia.

The Ministry of Finance recently submitted its Annual Report, including its annual accounts and reports on its operations and affairs and the general state of the Namibian economy. These Reports and reports accumulated during interviews, as well as data-collection during mail surveys will also be analyzed in an attempt to evaluate Namibia's overall attractiveness for FDI.

Importance/ Benefits of the Research

In recognition of the critical role SMEs can play in the socio-economic development of the country and economic development of the country and economic diversification, the Government has put in place policies and programmes for the development of SMEs.

The main thrust is to increase the rate of growth of existing businesses to ensure the employment of more people. The second thrust is the reduction of business failures while increasing the development of new business formations. The third thrust is the diversification of the activities of the sector includes continuing efforts to improve and empowering environment, including pro-active programme and institutional support. More specifically, the assistance programmes for SMEs target the critical areas of access to finance, skills development, marketing, technology transfer, management and institutional support.

Such a comprehensive policy framework is expected to enhance the economic role of SMEs not only in terms of their contribution to employment and poverty reduction, but also in terms of contribution to economic diversification. The development and promotion of the SME sector is an integral part of the Special Industrialisation Programme (SIP), which is designed to render practical support to viable business ideas and plans. The long-term objective of this programme is to promote export-oriented production and where appropriate import substitution.

International businesses like multinational companies participate in the foreign exchange market to facilitate international trade & investment, to invest spare cash in short-term money market accounts in Namibia & to engage in currency speculation.

FDI can make positive contributions to Namibia by supplying the capital, technology and management resources that would otherwise not be available. These endorsements can positively influence the overall economic status of Namibia people.

Benefits of the study can translate into effective marketing of Namibia as WTO and SADC member and to encourage FDI investor confidence & growth in Namibia. High levels of FDI can translate into positive outputs in terms of economic & growth potential FDI in Namibia, resulting in strong global trade and accelerated growth potential in developing African countries.

Namibia has recently joined the WTO as member country, does it have a sustainable economy & the infrastructure to attract FDI?

The overall attractiveness of Namibia as a potential FDI market site depends on balancing of benefits costs & risks associated with business operations, which is generally lower in politically stable democratic nations like Namibia.

Namibia like most WTO countries increasingly encourages FDI by offering economic & development incentives. WTO encourages progress on liberalizing rules for FDI, therefore the MNC must negotiate terms of investment with Namibian government.

Agreement should benefit both parties involving compromises. Outcomes of negotiations are determined by MNC bargaining powers. FDI supplies capital, technology & management resources which can benefit the Namibian economy.

Dealing in multiple currencies is a requirement for international business by creating risks & significantly alters attractiveness of investments. MNC can use foreign exchange market to minimize risks by investing spare cash in short-term money market accounts, thereby engaging in currency speculation.

This lead this researcher to conclude that, other factors being equal, the benefit, cost risk trade-off will be more favourable in politically stable Namibia that has a free market system. FDI can make positive contributions to Namibia by supplying capital, technology & management resources that would otherwise not be available.

Being a small and open country, Namibia can only achieve high levels of economic growth if it has free access for its export products to the larger African market. This can only be realized once all barriers to trade among African countries are completely eradicated. Of concern however is Namibia's membership in the various regional bodies whose activities and interest overlap. The programmes of SADC and COMESA are for instance very similar and Namibia has membership in both groups. This duplication of activities could be costly and should be avoided.

The challenge facing Namibia is the selection of membership and on which regional initiative the country should concentrate at present and the possible initiatives which should be temporarily suspended. With the deepening and acceleration of SADC integration agenda, aiming at becoming a vibrant economic and political bloc and key player in the world economic area, the region is increasingly enhancing its capacity and position to minimize the risks of globalization and take advantage of the opportunities it presents in order to effectively deal with the pervasive problems of extreme and overall poverty.

Furthermore, the continued political will and commitment in SADC to work collectively to ensure the realization of the ultimate goal of the integration process; namely to systematically tackle the problem of poverty, improve the standard and quality of the life of people in Southern Africa and support the socially disadvantaged. Examining the nature and magnitude of poverty in the region as well as its determinants is therefore of utmost importance especially the policy options and a deliberate strategy, which needs to be mounted to substantially reduce poverty on a sustainable basis.

In bidding for FDI, the Namibian Government has to balance the aim of maximizing the benefits that accrue to Namibia, while avoiding strict red-tape policies. Ultimately, FDI cannot be forced because foreign investors can invest elsewhere. However, there is also great potential and opportunity in SADC to address the highlighted challenges. The region is richly endowed with human, natural, agricultural and mineral resources. With a population of about 190 million people and a combined GDP of US\$176 billion, the SADC region remains one of the largest unexploited markets in the world. With sound macro-economic fundamentals and relatively good infrastructure in place, SADC has created some of the prerequisites for economic growth.

FDI will be forthcoming depending on market attractiveness. To squeeze maximum benefit from Namibian FDI, a sectoral approach should be adopted to FDI promotion depending on our negotiating power.

This research has confidence in the potential for improving economic & development factors that will invite FDI in Namibia.

Research Limitations

The desired procedure would be to include an analysis of the economic performance of all the regions in Namibia in an attempt to analyse the country's overall performance in attracting FDI compared to actual procedure in the research which were limited to the Central Business District in Windhoek. This could result in a flaw in procedural design influencing the findings.

Self-administered questionnaires/ assessments allow for too much interpretation of questions by subjects.

Hypothesis

Favourable socio- economic and political conditions in a country are positively related to FDI attraction. Concerted investments in these spheres enhances a country's global investment status. An economic promotion campaign will promote Namibia as a potential for FDI and in turn will increase business activity, especially in the SME sector. Red-tape entry requirements are lifted or replaced with liberal foreign trade acts and policies in a bid to enhance foreign investments in Namibia in a constructive and concerted economical effort, ascribing to the New Trade Theory advocated by the country which is outlined in the literature review.

The research design or overall strategic choice is based on a combination of exploratory & descriptive method due to the structured nature of the research problem. Qualitative & quantitative methods are used for data collection based on economic & development factors influencing FDI in Namibia. The hypothesis testing is necessary in determining the accuracy of the hypothesis due to the fact that samples of data was collected.

Research Design

The research design or overall strategic choice is based on a combination of exploratory & descriptive method due to the structured nature of the research problem. Qualitative & quantitative methods are used for data collection based on economic & development factors influencing FDI in Namibia.

The Ministry of Finance recently submitted its Annual Report, including its annual accounts and reports on its operations and affairs and the general state of the Namibian economy. These Reports and data collected during interviews and the mail survey will also be critically analyzed in an attempt to evaluate Namibia's overall attractiveness for FDI.

Exploration: I augmented my knowledge of FDI in Namibia by personally interviewing managers and CEOs from local and foreign companies and developed a questionnaire as a mail survey (Annex II). A survey questionnaire on Central Business Enterprises addressed to the Town Clerk was included (Annex I)

Pilot Test: I tested the questionnaire with a small sample of CEO's. Revision of questionnaire was done and amended appropriately, after which the final questionnaire was submitted using the mail survey. Final questionnaire will be used for mail survey.

The aim of the mail survey was to generate information on the characteristics of entrepreneurs and enterprises in Namibia's Central Business District. Information was collected in order to:

- Establish the number and types of small and micro businesses;
- Illustrate the characteristics of small and micro businesses
- Develop a database for measuring the impact of the SME policy and programmes.

The methodology applied was based on two questionnaires:

- Questionnaire design: A survey questionnaire was used for interviewing a sample of businesses. A stratified random sample was drawn. A comment / suggestion section is included.
- The second questionnaire was presented to the local authority town clerk and was concerned with policies towards SMEs.

The questionnaires are attached as an Appendix. In order to ensure a representative picture of executives' opinions of Namibia's Central Business District, each firm within CBD was given the opportunity to be selected in the sample. However, as the largest firms were expected to have a greater impact on the future of Namibia's economic expansion, a stratified sample was selected on an industry and location basis. Prior to sampling, these larger firms were identified on the basis of information gained from the Namibian Investment Centre and the Windhoek Municipality, the proprietary source, listing the square meter of firms in the CBD.

The local authority had a list of registered businesses by type. However data on businesses were very limited, and the majority of businesses in the location area were not registered.

- The local authority did not have an annual plan for the SME sector, although several activities were planned to support SME.
- Direct outsourcing activities to local firms were minimal; however a tender policy favouring local SMEs is in progress.
- The local authority appeared to act in an enabling way towards SMEs.

Several additional firms were included after consultation with the Namibia Investment Centre. The stratum of larger firms consisted of 154 major firms within CBD. The first stratum was broken into two parts labeled key firms for the "largest" 40 firms and other major firms for the remaining 114 firms of major importance in the CBD. Every firm on this list of major firms was sent a questionnaire. The other stratum consisted of all other firms in the CBD.

A systematic random sample of the firms in the second stratum was selected using the local authority's list of registered businesses by type. The sample size for this stratum was 218. Together, then, total sample had 372 elements. Of the 372 questionnaires sent out, 11 were undeliverable or otherwise unusable, leaving a true sample size of 361 (Table 4.1). Two hundred & nineteen of the 361 remaining questionnaires were filled out and returned. Thus approximately a 52.1 % response rate resulted. Table 4.14 indicates the composition of the respondents according to designation by stratum. To ensure a high response rate, an advance notification letter was sent to all firms selected in the sample, then a cover letter from the researcher was included with a questionnaire.

Evaluation of Non-response bias: Random sample of non-respondents. Sample frame was established. Non-respondents were interviewed telephonically and their responses were used in a statistical comparison of responses - respondents vs non-respondent samples were taken.

Data Analysis

General characteristics of enterprises in the sample

- The sample was dominated by micro enterprises both in terms of monthly sales and number of employees. 42% of the enterprises had monthly turnovers below N\$10 000, and 90% had turnovers below N\$50 000. The data indicated that 83% of the businesses were very small, employing a minimum of three persons.
- Two thirds of the businesses were in the range of 1-8 years old. The average was 8 years old.
- Nearly half of the enterprises owned their business premises (45%). More than two-thirds of businesses were mainly conducted from a fixed indoor location.
- One third of the businesses were not registered.
- The small business sector is not organized at all, in so far 92% indicated that they do not belong to any Business Association.

Personal characteristics of the entrepreneurs

- The average age of the entrepreneur was 37 years. There was however a broad spectrum of ages, with entrepreneurs falling between the ages of 19- 78.
- The majority of enterprises were managed by the owners of the businesses 76.5%, and only 23.5% by employed managers.
- There was substantial gender equality: 57% of the interviewees were male and 43% female. The gender balance do not correspond when looking at the gender positions (owners versus employed managers) in the businesses, since the percentage of male owner was higher than that of female owners.
- The majority of the owners (86%) did not own any other enterprises.
- The educational level differed considerably by gender and location. 70% of the respondents had education levels between grades 5-12, while 10% did not have formal education at all.
- The majority of managers (82.2%) had never attended any management training course nor a technical training course (82%)

Financing

- Most of the interviewed entrepreneurs (70%) used their own savings to start up their businesses, and a further 13% reported that they received family assistance. The average start-up costs was approximately N\$22 000. This average comprised a lot of very small start-up costs (70% were under N\$5000) and a few very high costs.
- The majority of the entrepreneurs (60%) had never applied for loans. As the most important reasons for this, the interviewed entrepreneurs cited the following:
 - Complicated loan application procedures (31%)
 - No need for loan (29%)
 - Lack of collateral (12%)
 - High Interest rates (8%)
- Most loans were used for equipment and raw materials
- In the case of future loan applications, 44% of the entrepreneurs reported that they would apply for loans of less than N\$10 000.
- The data revealed that 66% of the respondents were currently saving. From these, 76% were saving on a regular, i.e weekly or monthly, basis.

Problems faced by businesses

The most important problems perceived by the businesses were found to be:

- Lack of payment (25%)
- Lack of demand for products and services (20%)
- Lack of credit for working capital (15%)
- Lack of cheaper sources of goods (11%)
- Lack of marketing information (5%)

Support Services

The interviewed entrepreneurs reported that the areas in which they were most in need of support were:

- Sub-contracting (16%)
- Business planning to get a loan (14%)
- Credit for working capital or investment (13%)
- Electricity (12%)

Most agencies in Namibia involved in SME support are not known to the majority of the interviewed SMEs. The best known organisations were the commercial banks, the Namibian Development Corporation and the Rossing Foundation.

Sustainability

Most important findings include:

Enterprises were more optimistic about an increase in turnover than an increase in employment.

- 59% of owners were positively attracted by self-employment. The rest were pushed into self-employment as a survival strategy.
- 36% of the respondents felt that their standard of living had increased during the last year.

Pro-active Programmes

The government is launching programmes designed to overcome the main constraints to the development of the sector and to help businesses exploit market opportunities.

Finance

Lack of finance is widely recognized to be the main obstacle to the development of small businesses. The Government is expanding and consolidating the existing small business loan scheme; and in addition to mobilizing funds internally and externally, it strives to incentivise the commercial banks to lend more to such businesses through a credit guarantee scheme. The provision for seed capital, leasing and support of venture capital are included. Small businesses will be enabled to have access to instruments of both equity and loan finance. While the government provides, in the short term, finance for small businesses, these measures will in the long term, also ensure that the commercial banks participate more actively in financing small businesses.

Market Access

The lack of market access is a major constraint to the growth of small businesses. This constraint could be addressed through five initiatives:

- Provision of better and larger numbers of market sites for small businesses through the industrial parks and SME modules development programme;
- Establishment of a Business Linkages Programme which will enable small service businesses to sell to larger businesses and the consumers,
- National expansion of the Vendor Development Programme, implemented by the Ministry of Trade and Industry, assisting small manufacturers to develop supply relationships with larger retailers;
- Development of merchandising intermediaries to market handicrafts and industrial goods;
- Provision of export market development support for small businesses.

Technology Transfer

Technological knowledge amongst small businesses is poor, inappropriate and expensive. The Ministry of Trade and Industry launched a technology sourcing programme attempting to establish an international database on technology for small businesses.

Purchasing

Disadvantage in purchasing inputs- raw materials or goods for sale- hinders the competitiveness of small businesses, lacking a well- developed network of wholesalers.

To overcome this constraint, the Government acted to:

- Establishment and maintaining an international database on sources of raw materials and inputs as well as exerting pressure toward tariff reductions on imports of raw materials under SACU. This is essential in helping small businesses to obtain these items from the most competitive suppliers in the world.
- Setting up a Group Purchase Scheme to bring together small businesses enabling them to purchase in bulk and/ or share the shipping cost of imports.

Sites and Premises

The building of industrial parks and SME modules implemented provides markets and other types of properties to small businesses:

- managed workshops or incubator units for supporting start-up businesses
- common facility centres whereby small manufacturers can have access to otherwise expensive or infrequently used equipment on a pay-per-use basis.

Training

To overcome lack of entrepreneurial skills in the SME sector, it is proposed that:

- The Institute of Management and Leadership Training (IMLT), which has considerable expertise and experience in this area, be assigned the training role to improve the competency of the sector's entrepreneurs
- SADC specialist trainer should be recruited to provide focused training as part of SME development.

Support Services

The Ministry of Trade and Industry serves as the lead ministry for SME development. The Ministry of Finance in conjunction with the Namibian Development Corporation (NDC) are responsible for the mobilization of the required financial resources for SME development. A credit committee serves as the first line of screening and evaluation of business ideas and the character of loan applicants comprising of representatives of regional and local authorities and local branches of the Namibia National Chamber of Commerce and Industry (NNCCI), regional offices of NDC and the Ministry of Trade and Industry. Its purpose is to minimize risks while, at the same time, maximizing opportunities for small entrepreneurs.

The lead role in the development of the small businesses is played by the sector's progressive entrepreneurs. It is on their ability to identify and exploit opportunities that the sector's future rests.

The Government's role in the sector's development is only as catalyst and enabler. However to overcome the present constraints to development, imposed by the past, the Government intervened strongly during the initial stages in the form of de-regulation and incentives improving the conditions for businesses to flourish.

Government Programmes for Diversification

Recognising the importance of economic development and diversification, the Namibian Government has put in place a number of initiatives to promote diversification and industrialization. These initiatives and programmes are briefly outlined below.

SME Policy and Industrial Strategy.

In recognition of the critical role SMEs can play in the socio-economic development of the country and economic development of the country and economic diversification, the Government has put in place policies and programmes for the development of SMEs.

The main thrust is to increase the rate of growth of existing businesses to ensure the employment of more people. The second thrust is the reduction of business failures while increasing the development of new business formations. The third thrust is the diversification of the activities of the sector includes continuing efforts to improve and empowering environment, including proactive programme and institutional support. More specifically, the assistance programmes for SMEs target the critical areas of access to finance, skills development, marketing, technology transfer, management and institutional support.

Such a comprehensive policy framework is expected to enhance the economic role of SMEs not only in terms of their contribution to employment and poverty reduction, but also in terms of contribution to economic diversification. The development and promotion of the SME sector is an integral part of the Special Industrialisation Programme (SIP), which is designed to render practical support to viable business ideas and plans. The long-term objective of this programme is to promote export-oriented production and where appropriate import substitution.

In addition, the Government is currently drafting a comprehensive industrial development policy to guide and facilitate the process of industrialization, development and diversification. Various industrial parks as well as incubator centers have been established throughout the country for use by the SMEs. Other support programmes for SMEs include the establishment of group purchase schemes, the objective which, is to bring together small business and enable them to purchase in bulk as well to share expenses such as transport cost. These programmes are expected to lead to the development of the SMEs and informal enterprises and regarded as channels to job creation and the economic empowerment of formerly disadvantaged Namibians.

Financing Programmes for SMEs

The assistance programme also addresses the access to finance for SMEs. Namibia has a relatively well-developed and sophisticated financial system that caters mainly for the formal business sector, while a significant number SMEs only have a limited access to financial services.

The end result as the questionnaire pointed out is that emerging firms and SMEs find themselves in a situation where they are unable to finance their operations adequately or further expand their business. This situation has led to minimal employment creation, low salaries and a less diversified economy.

In addressing this situation, the Government is taking concerted action aimed at enhancing the private sector, especially the SME sector, to provide access to finance. One of these actions is the streamlining and consolidation of state owned development –financing institutions, namely the NDC and the DFN into a Development Bank. If professionally managed, the Development Bank will play an important role in development lending to the private sector (including lending to the SME sector).

The Government has also put in place a credit guarantee scheme, which provides a government guarantee for SME loans. Several million dollars have already been spent on this initiative. Other financing facilities available to the private sector include the Private Sector Global Loan facility of the EIB and the Indian. Export and import Bank Equipment fund as well as a similar fund made available by the Spanish Government.

In addition to these programmes, it is recommended that the Government should consider establishing a venture capital fund as well and capital fund to supplement the above programmes and enable SMEs access to both loans and equity.

Export Processing Zone (EPZ) and Special Incentives

The EPZ regime was established in 1996, has been the main incentives scheme aimed at encouraging foreign direct investments in Namibia. The main goal of the EPZ regime is the promotion of investment and employment in an export- orientated manufacturing industry. An added goal is the transfer of technology and know-how to the remainder of the economy. The Namibian government has stressed that EPZ's are not fenced in industrial estates, but are part of an integrated national industrial development strategy. This strategy primarily seeks to attract foreign investors to Namibia with a view to developing export-orientated industries.

Recommendations and conclusions

Overall Attractiveness of Namibia for FDI

The overall attractiveness of Namibia as a potential FDI market site depends on balancing of benefits costs & risks associated with business operations, which is generally lower in politically stable democratic nations like Namibia.

Namibia like most WTO countries increasingly encourages FDI by offering economic & development incentives. WTO encourages progress on liberalizing rules for FDI, therefore the MNC must negotiate terms of investment with Namibian government.

Agreement should benefit both parties involving compromises. Outcomes of negotiations are determined by MNC bargaining powers. FDI supplies capital, technology & management resources which can benefit the Namibian economy.

Dealing in multiple currencies is a requirement for international business by creating risks & significantly alters attractiveness of investments. MNC can use foreign exchange market to minimize risks by investing spare cash in short-term money market accounts, thereby engaging in currency speculation.

This lead this researcher to conclude that, other factors being equal, the benefit, cost risk trade-off will be more favourable in politically stable Namibia that has a free market system. FDI can make positive contributions to Namibia by supplying capital, technology & management resources that would otherwise not be available.

Being a small and open country, Namibia can only achieve high levels of economic growth if it has free access for its export products to the larger African market. This can only be realized once all barriers to trade among African countries are completely eradicated. Of concern however is Namibia's membership in the various regional bodies whose activities and interest overlap. The programmes of SADC and COMESA are for instance very similar and Namibia has membership in both groups. This duplication of activities could be costly and should be avoided.

The challenge facing Namibia is the selection of membership and on which regional initiative the country should concentrate at present and the possible initiatives which should be temporarily suspended. With the deepening and acceleration of SADC integration agenda, aiming at becoming a vibrant economic and political bloc and key player in the world economic area, the region is increasingly enhancing its capacity and position to minimize the risks of globalization and take advantage of the opportunities it presents in order to effectively deal with the pervasive problems of extreme and overall poverty.

Furthermore, the continued political will and commitment in SADC to work collectively to ensure the realization of the ultimate goal of the integration process; namely to systematically tackle the problem of poverty, improve the standard and quality of the life of people in Southern Africa and support the socially disadvantaged. Examining the nature and magnitude of poverty in the region as well as its determinants is therefore of utmost importance especially the policy options and a deliberate strategy, which needs to be mounted to substantially reduce poverty on a sustainable basis.

In bidding for FDI, the Namibian Government has to balance the aim of maximizing the benefits that accrue to Namibia, while avoiding strict red-tape policies. Ultimately, FDI cannot be forced because foreign investors can invest elsewhere. However, there is also great potential and opportunity in SADC to address the highlighted challenges. The region is richly endowed with human, natural, agricultural and mineral resources. With a population of about 190 million people and a combined GDP of US\$176 billion, the SADC region remains one of the largest unexploited markets in the world. With sound macro-economic fundamentals and relatively good infrastructure in place, SADC has created some of the prerequisites for economic growth.

FDI will be forthcoming depending on market attractiveness. Although from Namibia's perspective, FDI depends upon a lucrative Namibian economy. To squeeze maximum benefit from Namibian FDI, a sectoral approach should be adopted to FDI promotion depending on our negotiating power. In this way some of the flexibility of the discretionary approach could be gained without throwing away the benefits of a more rule-based system.

1.1 Global Foreign Direct Investment

Even before the disastrous events in the United States recently the United Nations was already predicting that world foreign direct investment (FDI) flows are likely to decline by 20 % in 2003, to US\$760 billion. This is according to projections released by the United Nations Conference on Trade and Development (Unctad), during the launch of the World Investment Report in Windhoek.

During the launch of the report Unctad stressed that their predictions are no way related to the events that transpired in US recently. Should FDI decline by this 20 %, it would represent the first drop since 1991 and the largest over the past three decades.

However, the level of flows in 2001 is still expected to be higher than in 1998 and also higher than the 1996-2000 average.

'Foreign direct investment plays a key role in the globalization process, generating both challenges and opportunities for countries' said Jacqueline Baddock, UN Resident Representative in Namibia, at the local launch of the World Investment Report. According to Unctad this year's projected dip is a result of a recent decline in cross-border mergers and acquisitions (M&As), which account for the bulk of FDI. The UN agency said significant increases in FDI flows in 1999 and 2000 - by about 50% and 18% respectively- were in fact caused by 'mega deals' (deals over US\$ 1 billion) for M&As.

Baddock, who launched the report alongside Executive Director of the Namibia Investment Centre, David Nuyoma, noted that world FDI flows are far from evenly distributed. The world's top 30 host countries receive 95% of the world's FDI, and 99% of outward FDI flows originate in only 30 countries, mainly industrialized ones.

Said Nuyoma: 'Policy makers in the various countries are indeed concerned not only with the attraction of more FDI but certainly how to maximize the benefits of FDI. Likewise here in Namibia we have been adjusting our strategies.' World Investment Report.

According to Unctad FDI flows were expected to decrease significantly in developed countries, from US\$ 1,005 trillion in 2000 to an estimated US\$510 billion in 2001, representing a 49% decrease. In the case of developing countries the decline was estimated to be 6%, from US\$ 240 billion to US\$225 billion. Decrease in FDI flows were also expected in both Latin America and developing Asia. As a result, the share of developing countries in world FDI inflows may rise to 30% in 2001, higher than the share attained in 1998.

FDI flows in Central and Eastern Europe were expected to remain stable in 2001, at US\$27 billion. The anticipated global decline, and the fall observed in two regions in Namibia last year, highlights the need for additional efforts in many developing countries to do more to attract and also increase their benefits from FDI. Countries wanting to stay abreast of the competition and wanting above all the benefits from FDI should refine their promotional activities.

1.2 Encouraging signs for FDI in Africa

UNCTAD's World Investment Report 1998 highlights high rates of return for FDI in Africa, and features Africa's FDI frontrunning countries. FDI by transnational corporations (TNCs) into Africa is low, but there are signs of rising levels for the future. Growth, economic reform and improvements in the regulatory frameworks of many countries in the continent are being increasingly recognized by both domestic and foreign investors, according to the World Investment Conference on Trade and Development (UNCTAD).

The World Investment Report (*WIR98*) highlights the profitability of FDI in Africa. It states that in the case of FDI from the United States, for example, there was only one year (1996) between 1980 and 1997 when the investment rate of return was below 10 percent. *'Since 1990, the rate of return in Africa has averaged 29% and since 1991 ... net income from British FDI in Africa was reported to have increased by 60% between 1989 and 1995.'* Excluding South Africa, FDI flows to Africa were 3% of total flows to developing countries in 1997 with a volume of U\$4.7 billion in 1996. Nigeria, Egypt, Morocco, Tunisia and Angola accounted for two-thirds of this total. Inflows of FDI to Africa have to a considerable extent been related to natural resources eg, Nigeria, Angola, Equatorial Guinea, Botswana, Namibia, and the United Republic of Tanzania, have been beneficiaries. (Table 1.1)

Table 1.1 FDI Inflows in Africa (1996-1997)

FDI Inflows to the top 10 recipient countries in Africa, 1996 and 1997 (in millions of U.S. dollars)	1996	1997
Country		
Excluding South Africa	4 828	4 710
Including South Africa	5 588	6 415
South Africa	760	1 705
Nigeria	1 361	1 000
Egypt	636	834
Morocco	311	500
Tunisa	253	360
Angola	290	350
United Republic of Tanzania	150	250
Uganda	121	250
Namibia	152	131
Libyan Arab Jamahiriya	100	110

The report indicates that investors need to look at the region country by country, and sector by sector, when planning FDI because of very substantial difference between countries. While the great majority of the FDI into the region went to relatively few countries, a number of Africa's smaller countries, such as Lesotho and Malawi, have been attracting increasing FDI. They hosted higher FDI stocks per US\$1,000 of GDP than many of the larger recipients in 1996. In some smaller countries the high FDI inflows are accounted for by the existence of the rich reserves and competitive investment locations for FDI that is undertaken to service the markets of larger neighbouring countries (for example, Lesotho relative to South Africa).

On the positive side, the report stresses that 1997 was the fourth consecutive year of economic growth for Africa. GDP growth rates exceeded 5% in several countries. Privatization has become increasingly important for attracting FDI, although it is far from being fully explored by most African countries. In Sub-Saharan Africa, US\$112 million of a total of US\$623 million in privatization sales were accounted for by FDI. Ghana topped the list with US\$186 million, selling a US\$112 million stake in Ashanti Goldfields to FDI, followed by Kenya with US\$137 million, including 26% share in Kenya Airways that sold to KLM of the Netherlands for US\$26 million.

African countries, including Namibia are enhancing policy frameworks, bidding to attract FDI. By 1997, some 47 of the 53 countries in the region adopted national laws governing FDI. Infrastructure improvements in telecommunication and electricity, road, rail, port networks, openness to trade etc are constantly in progress. Investment promotion agencies are proliferating and awareness strengthens the overall FDI environment by reducing bureaucratic red tape and curbing corruption. The principal home countries of MNCs investing in Africa in the 1982-96 period were the United Kingdom, France, the United States, Germany, Japan and Netherlands. In recent years, France overtook the United Kingdom as the largest single country source of African FDI. At the same time FDI flows to Africa, especially to Namibia from Asia have increased significantly, mainly from MNCs in the Republic of Korea and in Malaysia, as well as from Taiwan, Province of China and China. The Asian financial crisis may impact FDI from that region to Africa in 1998.

WIR98 shows that a number of 'frontrunners' in Africa are attracting relatively high and growing levels of FDI. These countries demonstrate that African countries have the potential of becoming attractive locations for FDI, even in a period when reports of political unrest and economic instability prevent many FDI investors from exploiting the opportunities that the continent has to offer.

The analysis, using a combination of key indicators relating FDI flows to the size of the economy, relative to gross fixed capital formation, measured in per capita terms, and other factors, showed that the 'frontrunners' in Africa are Namibia, Botswana, Equatorial Guinea, Ghana, Mozambique, Tunisia and Uganda.

These countries represented the most dynamic countries in Africa in terms of attracting FDI flows during the 1992-96 period, according to the indicators used in *WIR98*. They accounted for more than 24% of FDI into Africa in 1996, while representing only 9% of the continent's population and 8% of its GDP. The group is heterogeneous in terms of the levels of development, as well as geographic location.

However, *WIR98* points out that large numbers of African countries are still largely bypassed by FDI. The governments of Africa must therefore take an array of political and macroeconomic measures to enhance their attractiveness as locations for FDI inflows. At the same time a variety of external measures need to be taken to enhance FDI into Africa, such as securing development assistance to improve FDI conditions, such as infrastructure facilities; openness of developed countries' markets for African exports; and, of particular importance, the reduction of the heavy debt burden of many African countries.

Are we getting enough out of foreign investment? Maximizing the benefits from foreign investment is no easy task. Foreign investors should be convinced of the stability and credibility of the economic environment they are committing themselves to, having to answer to shareholders and banks if they make the wrong choice.

In areas where Namibia is only offering what every other developing country is offering- unskilled labour for example - our negotiating power is inevitably limited. Investors can therefore bargain us down to prevailing world market conditions in terms of labour costs and other inputs. This is why the country will receive relatively few benefits from the EPZ (Export Processing Zone) Programme. However, in other areas such as fishing, mining and tourism, Namibia is one of the unique 'frontrunner countries' for FDI. Such attractions have a scarcity value which confers far greater negotiating power to Namibia. In these areas, investors are often under enormous pressure to find good opportunities for growth.

The question is, 'Are we maximizing the benefits we receive in local employment, training, work experience, tax revenue, export earnings- in these areas of greater negotiating strength?'

Economists often debate the merits of rules-based policy as opposed to discretionary policy. In the former the rules are set and everyone abides by, then it is clear, transparent and less prone to corruption and favouritism. However, it could be argued that rules lack the flexibility to separately negotiate each deal according to its merits.

1.3 Poverty Reduction

As the SADC region (Southern African Development Corporation) begins the new millennium, it continues to be confronted with complex and daunting challenges of human development. About 76 million people, 40% of SADC population live in extreme poverty as reflected in poor social indicators such as high levels of malnutrition, illiteracy, unemployment, underemployment, declining life expectancy, and unsatisfactory access to basic services and infrastructure needed to sustain basic human capacities. SADC has the highest proportion of people subsisting on less than US\$1 a day in the world. Pockets of civil strife and wars in a few member States, trade in illicit drugs and the spread of the HIV/AIDS pandemic further compound the problem of poverty.

The concepts of poverty were understood and adopted at the 1995 Social Summit, in Copenhagen to whose Commitments SADC member States were a party, and endorsed by key multilateral development agencies such as the UNDP and the World Bank. It refers to overall poverty (i.e. lack of income to buy basic food requirements and non-food needs; often called extreme poverty and overall poverty respectively) and human poverty (lack of basic human capabilities such as education, health, clean water, sanitation and energy).

1.3.1 Poverty Situation in Southern Africa and Major Contributory Factors

SADC member States made them commitments to eradicate extreme poverty and to substantially reduce overall poverty at the World Social Summit in Copenhagen in 1995. To this end, they have continued to put in place various policies, measures and strategies to address this problem. Policy frameworks in place include economic reforms, civil service reforms, broadening democratization processes, promotion of good governance and increased accountability. As a result, most member States have registered positive growth rates during the past few years. At the regional level, an average of 3 % annual economic growth rate was recorded. Some member States such as Botswana, Mauritius and Mozambique have recorded average annual growth rate above 3% percent, while the majority have recorded average annual growth rates below 4%.

However the pace, consistency and real economic growth in the region continue to lag behind that of the growth of population, estimated at an annual rate of 3.5%. The United Nations Economic Commission for Africa has further estimated that the region requires a GDP growth of 6.2%, through a level of investment of the tune of 38% of GDP, to reduce poverty by half by the year 2015. Various measures taken so far have not yielded the required impact. Consequently, a large proportion of the population in most SADC member states still lives below the poverty datum line. The economic and social indicators indicate that countries like Namibia, Botswana and Mozambique have registered the required levels of economic growth rates, but continued to record high poverty prevalence rates. This indicates that the nature of wealth distribution and growth benefits are impacting on the levels of poverty.

The former managing director of the IMF (International Monetary Fund) noted in his last statement at the UNCTAD conference in Bangkok in 2002 'It is not enough to increase the size of the cake; the way it is shared is deeply relevant to the dynamism of the development and to reducing poverty.'

This limited economic base, indicates that individual economies of most SADC member states are not internationally viable and competitive. They are not yet in an economic position to reap the benefits of economies of scale and to effectively deal with constraints to international economic competitiveness. These constraints include uncompetitive industries, small markets, inadequate infrastructure, underdeveloped financial and capital markets, lack of modern technology and skilled personnel.

The constant investment by the parastatal Telecom Namibia in the country's communications infrastructure, positively positions Namibia to leapfrog the information and telecommunications revolution. The productive application of this technology should help to fast track the country's industrial transformation process, increase productivity and enhance the competitiveness of Namibian products within the regional and global economy.

These constructive developments are not limited to Namibia. Throughout SADC, member States are instituting mechanisms to expand their information and communications technologies. Because of these initiatives and the considerable investments in physical infrastructure, the region is increasingly being recognized as an emerging economic force.

The SADC region has been described as the next frontier of economic growth. The SADC Trade Protocol reinforces the 'global view of our region as an ideal place for FDI. As individual economies as well as a region, we must jealously guard this positive image and continuously invest in its consolidation. We must work together to create a dynamic and strong regional economy which is attractive to investors and of material benefit to our people, both present and future.'

1.4 Research Potential

This MBA dissertation examines the 'Feasibility & Attractiveness of FDI in the emerging Namibian market', and the overall impact on the country's international competitiveness as a World Trade Organization (WTO) and SADC member. One of the most sensitive areas in international economics is Foreign Direct Investment (FDI) which need to be considered when Multinational National Corporations (MNCs) intend seeking exposure to emerging markets in establishing a subsidiary company in a developing country. Developing countries fear exploitation and inadequate access to foreign capital, technology, marketing & management skills.

Many countries eg. Indonesia and Russia have accumulated huge foreign indebtedness on which it is difficult to pay even the interest. High indebtedness, high inflation and high unemployment in several countries have resulted in unstable governments exposing foreign firms to the risks of expropriation, nationalization, and limits on profit repatriation. High indebtedness and political instability decrease the value of a county's foreign currency. Foreign firms want hard currency generation with profit repatriation rights, unavailable in many markets.

Foreign -government entry requirements and bureaucracy enforce foreign entry regulations on firms eg. joint ventures with majority share to domestic partner, high number of employed nationals, transfer of technological skills and profit repatriation. Governments often impose high tariffs or resort to invisible trade barriers to protect their industries. The Namibian government can regulate the operations of foreign firms in various ways. Analysis of economic and development factors affecting FDI which negatively or positively influence future investments in the country are examined.

Many developing countries like Namibia receive between one quarter & three fifths of their government revenue from trade tariffs with a higher dependence on customs than in equally trade-orientated high-income countries. In principle, the developing country can use tariffs to maximize social separate government with its own public spending and power to tax. Differences in national tax policies are as a rule more pronounced than differences between tax policies of states, provinces or cities.

The high cost of product and communication adaptation force foreign companies to study each foreign market, including Namibia carefully, becoming sensitive to local markets, local economy, local laws, local politics, and local culture and adapt its products and communications to the market's preference.

Namibia has a good track record of economic and infrastructure development progress. The long-term Development strategy, 'Vision 2020, aims to achieve developed nation status in both economic and development sectors by the year 2020.

Past economic crisis and the exposure to underlying structural weaknesses in financial and corporate sectors, threatened to undermine the country's achievements. Selective capital controls were introduced in an effort to limit currency volatility, additional to the structural reform measures implemented in corporate & financial sectors.

Development factors like infrastructure & political factors in Namibia should be scrutinized in analyzing the Namibian economy. The rise of Namibian exports is due to improved development pertaining to improved infrastructure eg. transport, energy supplies & telecommunications which experienced accelerated growth, by the increased telephone mainlines and telecommunications networks.

The electric power consumption per capita indicates increasing consumption due to increased trade and economic factors as reported by Nampower. There was an increase in telephone mainlines and telecommunications networks. Information, telecommunication and transport systems are critical for growth and development. They constitute the backbone of technological and financial sector advancement. Efficient information communication and transportation systems do not only lead to higher growth, but also to a more equitable distribution of the benefits of growth.

Namibia's transportation infrastructure provides easy access to all parts of the country: 4,300 km of first class roads, 34.000 km of unpaved roads, 2.400 km of railway lines, newly improved airports and the Trans Caprivi and Trans Kalahari highways. These provide enormous opportunities for the development of other services and sectors.

One of the key determinants of a sustainable economy is the diversification of its industries. A more balanced economy prevents dependence on any particular sector or number of sectors of the economy and stabilizes economic fluctuations. Diversified industries bring new money into an economy, expand the tax base and provide increased support for infrastructure development projects such as roads, schools, community services and locally dependent small businesses. It is also believed that there are diversified linkages across the sectors of the economy. This type of economy is expected to generate more employment and self-sustaining prerequisite for continued growth in real incomes and employment, which provide a basis for poverty reduction.

On the political front Namibia is a highly stable country because of the peaceful nature of its people. Political forces will cause drastic changes in business environment. Unrest finds expression in strikes, demonstrations & conflicts resulting in a negative effect on profitable goals for FDI countries. Namibia is one of the few African countries boasting a stable, peaceful political atmosphere, presenting a potential market for multinational companies.

In the regional context, the Regional Tourism Organisation of Southern Africa (RETOSA) is the body that markets and promotes SADC countries at regional and international levels. At county level however, the newly established Namibia Tourism Board (NTB) will have the responsibility of promoting and marketing Namibia as a tourist destination.

The research highlights some of the policies and initiatives, which the Namibian government has put in place since Independence to broaden the manufacturing base of the country and to promote export diversification. The aim of this study is to assess whether these efforts to promote diversification have borne the desired results. In other words, has there been a structural shift in the country's production structure during the period under consideration?

The research design or overall strategic choice is based on a combination of exploratory & descriptive method due to the structured nature of the research problem. Qualitative & quantitative methods are used for data collection based on economic & development factors influencing FDI in the country.

The Ministry of Finance recently submitted its Annual Report, including its annual accounts and reports on its operations and affairs and the general state of the Namibian economy. These Reports and reports accumulated during interviews, as well as data-collection during mail surveys will also be analyzed in an attempt to evaluate Namibia's overall attractiveness for FDI.

Exploration: Qualitative methods were employed. I augmented my knowledge of FDI in Namibia by personally interviewing managers and CEOs from government, local and foreign companies and developed questionnaires as a mail survey.

Questionnaire design: A self-administered questionnaire secured feedback on FDI in Namibia. Some questions for this instrument were based on the investigation questions I presented previously and others were drawn from executive interviews. A comment / suggestion section was included.

Pilot Test: I tested the questionnaire with a small sample of CEO's. Revision of the questionnaire was undertaken and it was amended appropriately, after which the final questionnaire was submitted using the mail survey.

Evaluation of Non-response bias: Random sample of non-respondents. Sample frame was established. Non-respondents were interviewed telephonically and their responses were used in a statistical comparison of responses - respondents vs non-respondent samples were taken.

Developing Africa witnessed strongest global trade in fast expanding economies in the year 2000, accounting a GDP growth potential in range of 3-4%. Exports & imports recorded in 1990-2000 increased. Throughout the 1990-2000 period, amongst the leading traders in commercial services the most dynamic exports and imports grew at a double-digit rate in Africa. As a result, the share of the developing countries like Namibia in world trade and output continues to increase, due to their ability to expand their role in world exports.

The purpose of FDI is to move capital internationally & share tangible assets eg. technology, managerial capabilities, marketing skills and assets. The reason for the flow of little or no financial capital in the initial stages is that the parent company can reduce the exchange risk that its foreign activities will be exposed to. A good strategy for multinational companies is to take on foreign-current liabilities as well, by borrowing in foreign currencies to finance subsidiaries. Direct investment is more than capital movement and in many cases it begins with little or no net flow of financial capital or initial capital can be borrowed exclusively in the host country Namibia, adding only its brand name, managerial formulas, and other assets of the less tangible variety. Once the subsidiary becomes profitable, it grows from reinvested internal profits and newly borrowed funds, and profit is repatriated to the MNC whose financial investments were hard to see.

International businesses like multinational companies participate in the foreign exchange market to facilitate international trade & investment, to invest spare cash in short-term money market accounts in Namibia & to engage in currency speculation.

FDI can make positive contributors to Namibia by supplying the capital, technology and management resources that would otherwise not be available. These endorsements can positively influence the overall economic status of Namibian people. Benefits of the study can translate into effective marketing of Namibia as WTO and SADC member and to encourage FDI investor confidence & growth in Namibia. High levels of FDI can translate into positive outputs in terms of economic & growth potential for FDI in Namibia, contributing to strong global trade and accelerated growth potential in developing African countries.

Namibia has recently joined the WTO as member country, does it have a sustainable economy & the infrastructure to attract FDI?

This research has confidence in the potential for improving economic & development factors that will invite FDI in Namibia.

This research desires information on the 'Feasibility & Attractiveness of FDI in Namibia and the overall impact on the country's international competitiveness.' As researcher, I intend to identify the economic and development factors.

CHAPTER 2

Literature Review

2.1 Theory of Mercantilism

The first theory of international trade emerged in England in the mid-16th century. Referred to as Mercantilism, its principle assertion was that gold and silver were the mainstays of national wealth and essential to vigorous commerce. At that time gold and silver were the currencies of trade between countries; a country could earn gold and silver by exporting goods. By the same token, importing goods from other countries would result in an outflow of gold and silver to these countries. The main tenet of Mercantilism was that it was in a country's best interest to maintain a trade surplus, to export more than it imported. By doing so a country would accumulate gold and silver and increase its national wealth and prestige. As the English Mercantilist writer Thomas Mun put it in 1630: 'The ordinary means therefore to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value.' (Hill, 2002).

Consistent with this belief, the mercantilist doctrine advocated government intervention to achieve a surplus in the balance of trade. The mercantilists saw no virtue in a large volume of trade. Rather, they recommended policies to maximize exports and minimize imports. To achieve this, imports were limited by tariffs and quotas, and exports were subsidized.

Propagated in the 16th and 17th centuries, Mercantilism advocated that countries should simultaneously encourage exports and discourage imports. Although Mercantilism is an old and largely discredited doctrine, its echoes remain in modern political debate and in the trade policies of many countries. For example, Jarl Hagelstam, a director at the Finnish Ministry of Finance, has observed that in most trade negotiations: 'The approach of individual negotiating countries, both industrialized and developing, has been to press for trade liberalization in areas where their own comparative competitive advantage are the strongest, and to resist liberalization in areas where they are less competitive and fear that imports would replace domestic production.' (Hill, 2002).

2.2 Neo-Mercantilism

Hagelstam attributes this strategy by negotiating countries to a neo-mercantilist belief held by politicians of many nations. This belief equates political power with economic power and economic power with a balance-of-trade surplus. Thus the trade strategy of many nations is designed to simultaneously boost exports and limit imports.

2.3 Theory of Absolute Advantage

Proposed in 1776, Adam Smith's Theory of Absolute Advantage was the first to explain why unrestricted free trade is beneficial to a country. Free trade occurs when a government does not attempt to influence through quotas and duties what its citizens can buy from another country or what they can produce and sell to another country. Smith argued that the invisible hand of the market mechanism, rather than government policy, should determine what a country imports and what it exports. His arguments implied that such a laissez-faire stance toward trade was in the best economic interest of the country.

2.4 Theory of Comparative Advantage

Building on Smith's work are two additional theories. One is the Theory of Comparative Advantage, advanced by the 19th century English economist David Ricardo. This theory is the intellectual basis of the modern argument for unrestricted free trade.

2.5 Theory of Heckscher-Ohlin

In the 20th century, Ricardo's work was refined by two Swedish economists, Eli Heckscher and Bertil Ohlin, whose theory is known as the Heckscher-Ohlin Theory.

The great strength of the theories of Smith, Ricardo, and Heckscher-Ohlin is that they identify with precision the specific benefits of international trade. Common sense suggests that some international trade is beneficial. These theories go beyond this common sense notion, however, to show why it is beneficial for a country to engage in international trade. The gains arise because international trade allows a country to specialize in the manufacture and export of products that can be produced most efficiently in that country, while importing products that can be produced more efficiently in other countries.

Their theories also explain the pattern of international trade observed in the world economy. David Ricardo's Theory of Comparative Advantage offers an explanation in terms of international differences in terms of labor productivity.

The more sophisticated Heckscher-Ohlin Theory emphasizes the interplay between the proportions in which the factors of production (such as land, labor and capital) are available in different countries and the proportion in which they are needed for producing particular goods. This explanation rests on the assumption that different countries have different endowments of the various factors of production. Tests of this Theory, however suggest that it is a less powerful explanation of real-world trade patterns than once thought.

The flaw of Mercantilism was that it viewed trade as a zero-sum game, where a gain by one country results in a loss by another. It was left to Smith and Ricardo to point out the short-sightedness of this approach in demonstrating that international trade is a positive-sum game, in which all the global economy can benefit.

2.6 Theory of Product Life-Cycle

One early response to the failure of the Heckscher-Ohlin Theory to explain the observed pattern of international trade was the Product life- cycle Theory. Proposed by Raymond Vernon, this theory suggests that early in their life-cycle, most new products are produced in and exported from the country in which they were developed. As the new product becomes widely accepted internationally, production starts in other countries. As a result, the theory suggests, the product may ultimately be exported back to the country of innovation.

2.7 Theory of New Trade

In a similar vein, during the 1980s, economists such as Paul Krugman of the Massachusetts Institute of Technology developed the New Trade Theory. New Trade Theory stresses that in some cases countries specialize in the production and export of particular products not because of underlying differences in factor endowments, but because in certain industries the world market can support only a limited number of firms (e g. the commercial aircraft industry). In such industries, firms that enter the market first build a competitive advantage that is difficult to challenge. Thus the observed pattern of trade between nations may in part be due to the ability of firms to capture first-mover advantages.

In a work related to the New Trade Theory, Michael Porter of the Harvard Business School has developed the Theory of National Competitive Advantage, that attempts to explain why particular nations achieve international success in particular industries. Like the New Trade Theorists, in addition to factor endowments, Porter points out the importance of country factors such as domestic demand and domestic rivalry in explaining a nation's dominance in the production and export of particular products.

Although all these theories agree that international trade is beneficial to a country, they lack agreement in their recommendations for government policy. Mercantilism make a crude case for government in promoting exports and limiting imports. The theories of Smith, Ricardo, and Heckscher-Ohlin form part of the case for unrestricted free trade. The argument for unrestricted free trade is that both import control and export incentives (such as subsidies) are self-defeating and result in wasted resources.

Both the New Trade Theory and Porter's Theory of National Competitive Advantage can be interpreted as justifying some limited and selective government intervention to support the development of certain export-oriented industries.

2.8 New Trade Theory: Application in Namibia

2.8.1 Administration of Act and Principles: Foreign Investments (ACT NO 27, 1990)

The Foreign Investment Act commenced on 7 July 1992 as amended by Act No. 24, 1993, Foreign Investment Amendment Act 1993. The Act makes provision for the promotion of foreign investments in Namibia.

Section 2 of Act states that the administration of the Foreign Investment Act and principles regarding foreign investments subject to the laws governing the public service are executed by Namibia' Ministry of Trade and Industry division called the Investment Centre, assisting the Minister in the administration of this Act.

Subject to the provisions of section 3 (1) of the Foreign Investment Act and the compliance with any formalities or requirements prescribed by any law in relation to the relevant business activity, a foreign national may invest and engage in any business activity in Namibia which any Namibian may undertake.

Section 3 (2) states that for the purposes of any law governing the establishment and carrying on of any business activity or the taxation of the income, or any other aspect, of any business activity, a foreign national shall be in no different position than any Namibian, except as may be otherwise provided by this Act.

Section 3 (3) continue by stating that no foreign national engaged in a business activity or intending to commence a business activity in Namibia shall be required to provide for the participation of the Government or any Namibian as shareholder or as partner in such a business to the Government or any Namibian: Provided that it may be a condition of any licence or other authorisation to or any agreement with a foreign national for the grant of rights over natural resources that the Government shall be entitled to or may acquire an interest in any enterprise to be formed for the exploitation of such rights.

(4) The Minister may, by notice in the *Gazette*, specify any business or category of business which, in the Minister's opinion, is engaged primarily in the provision of services or the production of goods which can be provided or produced adequately by Namibians, and, with effect from the date of such notice, no foreign national shall, subject to the provisions of section 7 (3), through the investment of foreign assets, become engaged in or be permitted to become engaged in any business so specified or falling within any category of business so specified.

(5) Any law relating to natural resources or any licence or other authorisation granted under such a law conferring rights for the exploitation of such resources, may provide for the granting or enjoyment of such rights to or by Namibians on terms more favourable than those applicable to foreign nationals.

2.8.2 Status Investments

Section 4 states that if the investment of foreign assets in Namibia is an eligible investment as defined in section 5, the Minister may subject to the provisions of this Act, issue a Certificate of Status Investment in respect thereof and the provisions of section 8 to 13 shall apply in relation to the enterprise in respect of which the Certificate has been issued.

Section 5 (1) states that for the purposes of this Act, an investment is an eligible investment;

- (a) if it is an investment, or proposed investment, in Namibia by a foreign national of foreign assets of a value not less than the amount which the Minister may determine from time to time by notice in the *Gazette* for this purpose;
- (b) if it is a reinvestment, or proposed reinvestment, by a foreign national of the profit or proceeds of sale of an enterprise specified in a Certificate, irrespective of the amount of such investment,

(2) Where the investment is for the acquisition of shares in a company incorporated in Namibia, the investment shall notwithstanding that the value thereof is equal to or exceeds the amount determined under subsection (1) (a), qualify as an eligible investment if;

- (a) not less than ten per cent of the share capital of the company is held or will, following the investment, be held by the foreign national making the investment;
- or
- (b) the Minister is satisfied that the foreign national making the investment is or will be actively involved in the management of the company.

(3) Where the investment is for the acquisition of a participating share in an unincorporated joint venture, the investment shall, notwithstanding that the value thereof is equal to or exceeds the amount determined under subsection (10 9a), qualify as an eligible investment only if:

- (a) Not less than ten per cent of participating share of joint venture is held or will, following the investment, be held by the foreign national making the investment; or
- (b) The Minister is satisfied that the foreign national making the investment is or will be actively involved in the management of the joint venture.

6. (1) A foreign national may apply to the Minister for a Certificate of Status Investment in respect of an investment which qualifies as an eligible investment in terms of section 5.

(2) An application for a Certificate of Status Investment shall be in the prescribed form, which shall require such information from the applicant as may be necessary to enable the Minister to consider applications in accordance with subsection (3).

(3) In considering an application for a Certificate of Status Investment, the Minister shall have special regard to:

- (a) the extent to which the proposed investment is likely to contribute towards Namibia's development objectives;
- (b) the extent to which the enterprise in which the proposed investment is to be made will utilize Namibian resources, including labour and natural resources so as to contribute to the economy, by, *inter alia*:
 - (i) increasing employment opportunities in Namibia;
 - (ii) providing for the training of Namibians
 - (iii) earning or saving foreign exchange;
 - (iv) generating development in the less developed areas of Namibia;

- (c) the extent to which the enterprise in which the proposed investment is to be made will contribute to the advancement of persons within Namibia who have been socially, economically or educationally disadvantaged by past discriminatory laws and practices or will facilitate the implementation of policies and programmes aimed at redressing social, economic or educational imbalances in the Namibian society;
- (d) the extent to which the enterprise in which the proposed investment is to be made will make provision for equal opportunities for women;
- (e) the impact which the activities of the enterprise in which the proposed investment is to be made is likely to have on the environment and, where necessary, the measures proposed to deal with any adverse environmental consequences.

7. (1) If the Minister is satisfied that the investment in respect of which application for a Certificate is made will promote the interests of Namibia, the Minister may issue a Certificate in respect thereof.

The forementioned extracts from the Foreign Investment Act (Annex III) clearly indicates that Namibia campaigned for and implemented liberal foreign trade acts and policies in a bid to enhance foreign investments in the country in a constructive and concerted economical effort, ascribing to the New Trade Theory advocated by the country.

CHAPTER 3

METHODOLOGY AND DATA COLLECTION

3.1 RESEARCH DESIGN: Methodology & Data Collection

The research design or overall strategic choice is based on a combination of exploratory & descriptive method due to the structured nature of the research problem. Qualitative & quantitative methods are used for data collection based on economic & development factors influencing FDI in Namibia.

The Ministry of Finance recently submitted its Annual Report, including its annual accounts and reports on its operations and affairs and the general state of the Namibian economy. These Reports and data collected during interviews and the mail survey will also be critically analyzed in an attempt to evaluate Namibia's overall attractiveness for FDI.

Exploration: I augmented my knowledge of FDI in Namibia by personally interviewing managers and CEOs from local and foreign companies and developed a questionnaire as a mail survey (Annex II). A survey questionnaire on Central Business Enterprises addressed to the Town Clerk was included (Annex I)

Pilot Test: I tested the questionnaire with a small sample of CEO's. Revision of questionnaire was done and amended appropriately, after which the final questionnaire was submitted using the mail survey. Final questionnaire will be used for mail survey.

The aim of the mail survey was to generate information on the characteristics of entrepreneurs and enterprises in Namibia's Central Business District. Information was collected in order to:

- Establish the number and types of small and micro businesses;
- Illustrate the characteristics of small and micro businesses
- Develop a database for measuring the impact of the SME policy and programmes.

The methodology applied was based on two questionnaires:

- Questionnaire design: A survey questionnaire was used for interviewing a sample of businesses. A stratified random sample was drawn. A comment / suggestion section is included.
- The second questionnaire was presented to the local authority town clerk and was concerned with policies towards SMEs.

The questionnaires are attached as an Appendix. In order to ensure a representative picture of executives' opinions of Namibia's Central Business District, each firm within CBD was given the opportunity to be selected in the sample.

However, as the largest firms were expected to have a greater impact on the future of Namibia's economic expansion, a stratified sample was selected on an industry and location basis. Prior to sampling, these larger firms were identified on the basis of information gained from the Namibian Investment Centre and the Windhoek Municipality, the proprietary source, listing the square meter of firms in the CBD.

The local authority had a list of registered businesses by type. However data on businesses were very limited, and the majority of businesses in the location area were not registered.

- The local authority did not have an annual plan for the SME sector, although several activities were planned to support SME.
- Direct outsourcing activities to local firms were minimal; however a tender policy favouring local SMEs is in progress.
- The local authority appeared to act in an enabling way towards SMEs.

Several additional firms were included after consultation with the Namibia Investment Centre. The stratum of larger firms consisted of 154 major firms within CBD. The first stratum was broken into two parts labeled key firms for the "largest" 40 firms and other major firms for the remaining 114 firms of major importance in the CBD. Every firm on this list of major firms was sent a questionnaire. The other stratum consisted of all other firms in the CBD.

A systematic random sample of the firms in the second stratum was selected using the local authority's list of registered businesses by type. The sample size for this stratum was 218. Together, then, total sample had 372 elements. Of the 372 questionnaires sent out, 11 were undeliverable or otherwise unusable, leaving a true sample size of 361 (Table 4.1). Two hundred & nineteen of the 361 remaining questionnaires were filled out and returned. Thus approximately a 52.1 % response rate resulted. Table 4.14 indicates the composition of the respondents according to designation by stratum. To ensure a high response rate, an advance notification letter was sent to all firms selected in the sample, then a cover letter from the researcher was included with a questionnaire.

Table 4.1 QUESTIONNAIRE RESPONSE PATTERNS

	NO.SENT	NO.RETURNED	(%) RETURNED	(%)TOTAL
PRETEST	36	44	66.7	11.0
MAIN TEST ^a	<u>325</u>	<u>144</u>	<u>44.3</u>	65.7
	361	188	52.1	
FOLLOW-UP	<u>181</u>	<u>51</u>	<u>28.2</u>	<u>23.3</u>
TOTAL	542	239	40.4	100.0

^a EXCLUDING 11 UNDELIVERABLE

If firms did not respond after three weeks had elapsed, a follow-up letter (with second questionnaire included) was sent to those firms that did not respond. For certain key firms that did not respond after six weeks had elapsed, telephone calls were made by the researcher asking if the questionnaires had been received and if they could be completed and returned.

Evaluation of Non-response bias: A random sample of non-respondents was taken. A sample frame was established. Non-respondents were interviewed telephonically and their responses were used in a statistical comparison of responses - respondents vs non- respondent samples.

Table 4.2 RESPONSE PATTERN BY STRATUM

	<u>NO. RETURNED</u>	<u>NO.SENT(%)</u>	<u>(%) OF TOTAL</u>
STRATUM 1: 'MAJOR FIRMS'	101	63.125	46.1
STRATUM 2: 'RANDOM FIRMS'	118	55.660	53.9
TOTAL	219	*	100

3.2 Data Analysis

I reviewed Namibia's Annual Reports and the returned questionnaires. Careful records are kept of negative and positive comments in an attempt to gather insight into the country's FDI performance.

Visual display of data by Charts, Figures & Tables of Results are presented. Exploratory data analysis techniques are used. Provision of better diagnostics than traditional summary statistics are made by emphasizing visual representations of data. Table-based analysis or more control variables are applied. Statistical process control charts offer reliable displays. Evaluation of point values, trends and variations are made. Cross-tabulation are used to evaluate findings. A brief statement of findings, relationships using one involving categorical variables, conclusions & recommendations are made.

Study suggestions that broaden or test research hopefully leading to managerial action are proposed.

CHAPTER 4

RESULTS (OBSERVATION AND FINDINGS)

4.1.1 General characteristics of enterprises in the sample

- The sample was dominated by micro enterprises both in terms of monthly sales and number of employees. 42% of the enterprises had monthly turnovers below N\$10 000, and 90% had turnovers below N\$50 000. The data indicated that 83% of the businesses were very small, employing a minimum of three persons.
- Two thirds of the businesses were in the range of 1-8 years old. The average was 8 years old.
- Nearly half of the enterprises owned their business premises (45%). More than two-thirds of businesses were mainly conducted from a fixed indoor location.
- One third of the businesses were not registered.
- The small business sector is not organized at all, in so far 92% indicated that they do not belong to any Business Association.

4.1.2 Personal characteristics of the entrepreneurs

- The average age of the entrepreneur was 37 years. There was however a broad spectrum of ages, with entrepreneurs falling between the ages of 19- 78.
- The majority of enterprises were managed by the owners of the businesses 76.5%, and only 23.5% by employed managers.
- There was substantial gender equality: 57% of the interviewees were male and 43% female. The gender balance do not correspond when looking at the gender positions (owners versus employed managers) in the businesses, since the percentage of male owner was higher than that of female owners.
- The majority of the owners (86%) did not own any other enterprises.

- The educational level differed considerably by gender and location. 70% of the respondents had education levels between grades 5-12, while 10% did not have formal education at all.
- The majority of managers (82.2%) had never attended any management training course nor a technical training course (82%)

4.1.3 Financing

- Most of the interviewed entrepreneurs (70%) used their own savings to start up their businesses, and a further 13% reported that they received family assistance. The average start-up costs was approximately N\$22 000. This average comprised a lot of very small start-up costs (70% were under N\$5000) and a few very high costs.
- The majority of the entrepreneurs (60%) had never applied for loans. As the most important reasons for this, the interviewed entrepreneurs cited the following:
Complicated loan application procedures (31%)
No need for loan (29%)
Lack of collateral (12%)
High Interest rates (8%)
- Most loans were used for equipment and raw materials
- In the case of future loan applications, 44% of the entrepreneurs reported that they would apply for loans of less than N\$10 000.
- The data revealed that 66% of the respondents were currently saving. From these, 76% were saving on a regular, i.e weekly or monthly, basis.

4.1.4 Problems faced by businesses

The most important problems perceived by the businesses were found to be:

- Lack of payment (25%)
- Lack of demand for products and services (20%)
- Lack of credit for working capital (15%)
- Lack of cheaper sources of goods (11%)
- Lack of marketing information (5%)

4.1.5 Support Services

The interviewed entrepreneurs reported that the areas in which they were most in need of support were:

- Sub-contracting (16%)
- Business planning to get a loan (14%)
- Credit for working capital or investment (13%)
- Electricity (12%)

Most agencies in Namibia involved in SME support are not known to the majority of the interviewed SMEs. The best known organisations were the commercial banks, the Namibian Development Corporation and the Rossing Foundation.

4.1.6 Sustainability

Most important findings include:

Enterprises were more optimistic about an increase in turnover than an increase in employment.

- 59% of owners were positively attracted by self-employment. The rest were pushed into self-employment as a survival strategy.
- 36% of the respondents felt that their standard of living had increased during the last year.

4.2 General Characteristics of the Enterprises

In this section some background data on the enterprises are presented; they refer to size, number of years in existence, from where the business is conducted, whether they are registered and whether they are members of any business association.

4.2.1 Size of the Enterprises

The size of the enterprises was measured in terms of average monthly sales, number of employees and assets of the firm.

The average monthly sales were as reported by entrepreneurs. 41% of the businesses had an average monthly turnover below N\$ 10 000 and 85% had a turnover of less than N\$30 000. 90% of the businesses had a turnover of less than N\$50 000. This finding is in line with global trends: Most of SME (Small and Medium Enterprises) are micro enterprises.

Turnover figures were then grouped as follows:

Table 4.1: Average monthly turnover (N=239)

Average Monthly Turnover	% Enterprises
below 10 000	41.42
10 000- 20 000	34.10
20 000 -30 000	10.30
40 000- 50 000	3.43
50 000- 60 000	4.81
over 60 000	<u>2.52</u>
	100

The number of businesses in the upper range is higher: 7.6.5% of businesses had a monthly turnover higher than N\$50 000.

Considering the nature of the business, it appears that the average turnover increased. The average monthly turnover of SMEs the manufacturing sector (N\$16 502), however, was lower than that registered in the service and trade sectors (N\$16 803 and N\$18 009 respectively).

Table 4.2 : Average Monthly Turnover by Sector

Nature of business	Mean Khomas Region /Windhoek
Manufacturing	16 502
Trade	18 009
Services	<u>16 803</u>
Total	<u>51 314</u>
Average	17 105

However, when considering the location of the business, it should be noted that in the manufacturing sector, the mean variations between Windhoek areas and Katutura is great. As a result, this brings down the overall mean for this specific sector. It should also be noted that half of the manufacturing sector's enterprises had a turnover of less than N\$10 000, but when breaking this down by location, it appears that while in Katutura half of the manufacturing sector's enterprises had a turnover of less than N\$ 800; in the Windhoek area the value was N\$ 40 000, meaning that the turnover was more evenly distributed around the average of the area (N\$32 219).

Table 4.3: Average Monthly Turnover by Location in N\$

Nature of Business	Windhoek		Katutura	
	Mean	Median	Mean	Median
Manufacturing	42 219	40 000	3 075	800
Trade	58 467	58 500	5 020	800
Services	45 961	46 000	3 830	2 000
Average	48.882	48 166	3 631	1 000

Not surprisingly, male entrepreneurs in both locations had an average monthly turnover higher than females. However these average figures hide large differences between Katutura and Windhoek. For both genders the turnover in Windhoek is more than five times as high than in Katutura. Furthermore, the turnover differences by gender is small in Windhoek, but high in Katutura, where the figure for men is more than double as for women. This indicates that with modernisation and urbanisation a great degree of gender equality can be expected.

Table 4.5 : Average Monthly Turnover by Sex and Location

	Location of business	
	Windhoek	Katutura
Male	40 000	4 729
Female	19 083	1 996
Average	29 541	3 631

In order to determine the contribution of SME to employment creation, the number of employees was determined. Regarding the size of the business, family members who assisted as unpaid part-time workers were not included as employees.

For the analysis of the sample it clearly emerges that the size of most businesses was very small: 27,2% of the sample had no employees, while 32% had just one.

Considering the cumulative figures, the data show that 82% of the sample employ fewer than 4 workers. When adding those businesses employing a maximum of 4 employees, the cumulative percentage is equal to 88%. Businesses in the category 5-9 employees represent only 8.3% of the sample.

Table 4.6: Number of employees

Number of employees	% Enterprises
0	27.3
1	31.9
2	15.2
3	8.2
4	5.4
5-9	8.4
10-14	2.8
Above 14	0.8
Total	100

The data show an average employment size of 2.1 persons for the whole sample, higher in Windhoek areas and lower in Katutura areas. Including the owner, this means that on average approximately 3 persons are working in SME. There were roughly equal numbers of male and female employees.

However, this result of predominance of microenterprises is not surprising and should not lead to a pessimistic assessment of SME, it reflects general features of SME everywhere. Most of them will remain small. Only a small minority will have the potential to grow further. Nevertheless, the overall economic potential of the SME sector remains considerable; It uses resources which would otherwise remain unutilised, it is a training ground for entrepreneurs.

As expected, manufacturing firms tend to have more employees, followed by the services and trade activities. It is interesting to note that there is no significant difference between manufacturing and the other two sectors. This can be explained by the fact that manufacturing activities such as catering or tailoring do not require high numbers of employees, and also that they take some time before maturing and reaching the level of medium-sized enterprises.

On the location of businesses, Windhoek areas tend to have businesses with a higher number of employees; 40% of the total of businesses located in Windhoek were in the 3-6 employees range, compared to only 13% of the businesses in Katutura areas.

The contribution of the SME sector to employment creation seems to be minimal, although some positive signals were detected. 71% of the businesses had not increased the number of employees since starting the activities, although 235 had, only 6% registered a decrease in the number of employees.

4.2.2 Value of Assets

The data on the value of assets revealed that in the Khomas/Windhoek region, enterprises had an average estimated value of premises of N\$9 738. The low mean value of the premises in the Khomas region could be attributed to the fact that about 83% of respondents indicated zero as the value of their premises. This could be partly ascribed to the fact that over half (55%) of enterprises are renting the premises where they conduct their businesses. Analysis by location reveals that enterprises operating in the Windhoek area have a high value, with an average value of N\$25 388, while those operating in Katutura attached a average low value of N\$5 404 to their premises, lowering the overall asset value average for Khomas region.

Table 4.7: Average Value of Premises, Machinery and Vehicles (N\$)

Location	Premises Mean	Machinery Mean	Vehicles Mean
Windhoek	25 388	110 175	44 668
Katutura	5 405	13 307	32 631
Average	9 738	32 056	34 964

An analysis of the estimated value of machinery/ equipments/ tools indicated that enterprises in the Khomas region had a low average of N\$32 056. This low value in Khomas region could be attributed to the fact that about 16% of enterprises indicated zero as the value of their machinery/ equipment/ tools; and the discrepancies between the values of the two locations (namely Katutura and Windhoek). Analysis by location shows a higher average value of machinery and equipment (N\$110 174) in Windhoek area than in Katutura (N\$ 13 307). This is not surprising given the fact that businesses in the Windhoek area are well established and have easier access to financial institutions than their counterparts in Katutura. The average value of the vehicle in Khomas Region was found to be N\$34 694. This underpins the fact that machinery and equipment are not seen as essential assets in the day-to-day operation by the interviewed entrepreneurs.

4.2.3 Age of the Enterprises

Two third of the business were under eight years old; 12% of the business were over 13 years old, and the average was 7 years. In Katutura, the majority of businesses were below the age of eight, with a high proportion four year old. This could be attributed to the fact that the majority of businesses are cuca shops and shabeens which are operated "on and off" all the year round. In Windhoek, the greater proportion of businesses are five years old.

The manufacturing sector in the Khomas region seems to have picked up faster than the other sectors over the past decade; this could be due to the fact that the infrastructure is better developed in the capital. The manufacturing sector businesses had an average of eight years. On the other end, the majority of businesses were between one and six years old in the service and trade sector. The construction sector is however still very underdeveloped.

4.2.4 Conduct of Businesses

From a total of 239 businesses, about 45% indicated they owned the premises they operated from.

Table 4.8: Ownership of business premises by location (N=239)

Owner owns business premises	Windhoek %	Katutura %	Total%
Yes	25	50	45
No (Renting)	75	50	55
Total	100	100	100

A higher percentage of businesses were rented in the Windhoek areas (75%) than in the Katutura areas (50%). This corresponds with the notion that renting is more common in town areas than in locations. This is also supported by the fact that more than 40% of the businesses in Katutura areas were conducted from the owner's house, compared to only 11% in the Windhoek areas. The majority of the businesses run from a fixed outdoor location were in the Windhoek areas (industrial areas), which helps in understanding the difference in the number of businesses owned and rented between Windhoek and Katutura. Gender did not influence the ownership of the businesses.

Overall it was found that 36% of the businesses were conducted from the owner's home, 40% from another fixed indoor location and only 24% from fixed outdoor locations.

The nature of the businesses was significant in determining from where businesses were conducted. Given the type of manufacturing activities identified in the survey it is not surprising that a high percentage of manufacturing activities (42%) were conducted from the owner's premises, as compared with service and trade activities, 32% and 28% respectively. Trade activities were mainly conducted from a fixed outdoor location (41%).

4.2.5 Customers' Distance from Businesses

93% of the customers are within a distance of 25km; as expected almost 100% of the businesses located in Katutura areas sell their products/services within the area. Export activities are very marginal in both locations. This reflects the emerging status of the SME sector, even in the capital. On the one hand, the majority of SME, particularly the microenterprises, will always be directed to the local market. However, the future promises a rising share of products for the export market.

Table 4.9: Distance to customers

Distance	Windhoek	Katutura	Total
Locally/in town	77.3	94.4	90.9
Up to 25 km	4.1	1.6	2.1
Over 25 km	15.5	2.4	5.1
Exported	3.1	1.6	1.9
Total %	100.0	100.0	100.0

There is no significant difference in terms of export propensity between sectors and gender.

4.2.6 Registration of Businesses

More than half of the businesses covered by the survey had not been registered only 47% were registered. On those that were not, 92% were located in Katutura. The higher number of unregistered businesses in Katutura could be attributed to the fact that the majority do not see any benefit accruing from the registration, but rather see it is difficulty to control such businesses in terms of registering, or that they produce goods that do not need a licence from the Municipality. The control standards appears, in fact, to be the main reason for the Municipality's requirements for the registration of businesses .

The main registering authority utilised by businesses in Katutura appears to be the Municipality; on the contrary, more respondents in Windhoek registered with the Ministries of Finance or Trade and Industry.

There is a high rate (53%) of unregistered businesses in the Khomas region. The Municipality played a significant role in registering businesses. Only 23% have been registered with the Municipality in Khomas region. In contrast, Headmen played a significant role in registering businesses in the Northern region.

Table 4.10: Registered Authority

Registration	Number	%
Chief / Headman	0	0
Town Council/ Municipality	122	23
Ministry of Trade & Industry	67	12
Ministry of Finance	43	8
Ministry of Lands	0	0
Other	24	4
Not registered	286	4
Total	542	100

The sharp differences in the degree of registration between Windhoek and Katutura show once more the still high differences of the economic environment between the two areas. The lower degree of registration in this urban area as compared to the rural areas may appear surprising. However, it can be explained by the degree of administrative penetration with low population density in the rural areas on the one side and the fast growing urban area of Katutura on the other side.

4.2.7 Membership to Business Associations

The majority of the entrepreneurs (92%) were not members of any business association, which confirms the findings of the surveys previously conducted. There were only minor differences between sectors and regions. 30% of those associated belong to the NCCI, 10% to the Namibia Shebeen Association and 5.4% both to the NATAU and the Association of Namibian Manufactures.

It is evident that the SME sector in Namibia, as in most countries, has no organisation acting as a focal point. The SME sector therefore has few channels to advocate their voice and demands. International experiences show that the organisation of SME is a crucial element to uplift and promote the sector.

4.3 Personal Characteristics of the Entrepreneurs

This section presents some more detailed background information on the personal profile of entrepreneurs in terms of age, ownership, gender distribution and education. Overall, the personal characteristics of entrepreneurs in this study are similar to those identified in the previous report. The majority of entrepreneurs managed their own businesses and overall, the entrepreneurs have a low level of training.

4.3.1 Age

The spectrum of ages of the interviewees was very wide, ranging between 19 and 78. The majority was in the age group 22-45 years, with only 11% exceeding 50 years. The average was 37 years. There was little variation by location or by sector.

4.3.2 Ownership and Management

The survey team interviewed either the owner or the manager of the businesses. In the event of both being present, the interviews were conducted with the owner. In the event of the interviewee being an employed manager, this showed that the status of ownership and management of the enterprise were clearly different - meaning that the business was not run directly by the owner but by an independent individual.

Table 4.11: Ownership and management by area. (%) (N=239)

Position	Windhoek	Katutura	Total
Owner and manager	71	76	73.5
Employed manager	29	24	26.5
TOTAL	100	100	100

This study revealed that 73.5% of the interviewees were owners and managers. This shows that there is little difference between ownership and management. This was particularly pronounced in Katutura (with 76%), where most businesses are self-owned and self-run. The higher degree of a separate management function in Khomas reflects a more pronounced degree of sophistication, particularly in Windhoek.

4.3.3 Gender Distribution

In the Khomas region there is some gender equality, 58% of those interviewed were male and 42% female, indicating male domination is still predominant.

Table 4.12: Gender distribution by position. (%) (N = 239)

Position	Male	Female	Total %
Owner and manager	81	67	73.5
Employed manager	19	33	26.5
Total %	100	100	100

As regard to position within the business, gender balance is not confirmed, since males were more represented as owners: 81% compared to 67% of females. The male predominance is also confirmed when looking at gender distribution by location. However, females comprised a relatively larger share of the employed managers: 33% compared to 19% for their male counterparts. This is both surprising and promising there seems like barrier for the increasing emergence of female business managers.

4.3.4 Other Businesses

The majority of owners (86%) did not have any other enterprises. A small percentage owned another business (11%) and fewer than 2% more than two.

Although there was no significant relationship between this number of businesses and gender or location, it is noteworthy that 3.1% of the owners in the Windhoek areas had more than two other businesses, compared with 1% in the Katutura areas. This may indicate that there is a risk in running multiple enterprises. It is difficult to manage several enterprises simultaneously, particularly when educational level and business experiences are limited.

Table 4.13: Number of other businesses by sector (N=239)

Number of other businesses	Manufacturing	Trade	Service	Total
0	88.5	78.0	86.0	85.7
1	7.5	16.5	13.4	11.2
2	2.2	2.2	0.6	1.7
3	0.9	1.1	..	0.6
4	0.4	2.2	..	0.6
5	0.4	0.2
Total	100.0	100.0	100.0	100.0

It may also mean that owners do not have the financial capital to start more businesses. Owners of enterprises in trade and services had a slightly higher number of other businesses compared to manufacturing. The fact that it is not common to manage businesses than one should be seen positively, as multiplicity of businesses. Common in some other countries, often results in inefficiencies and stalls business growth.

4.3.5 Educational Level

The educational level of entrepreneurs differed greatly by gender and location. 70% of the respondents had education levels between Grade 5-12 while 10% did not have any formal education at all.

On average, male entrepreneurs were found to dominate at both ends of the scale: i.e. more likely to have no education and more likely to have diploma/university education. On the other hand, female entrepreneurs had the higher proportion at the Grade 10-12 level (48%) as compared to their male counterparts (31%). The proportion of both sexes was higher from Grade 10-12 level. Although more men have university degrees, in general more women in business are educated.

Table 4.14: Educational level of enterprise manager/owner by sex of interviews. (%) (N=239)

Grade	Male	Female	Total
None	14	5	10
Grade 1 – 4	13	9	11
Grade 5 - 9	29	31	30
Grade 10 - 12	31	48	40
Diploma/University	13	7	10
Total	100	100	100

NB. Figures may not add up to 100% because of rounding.

All entrepreneurs (mostly male) with no education were found in Katutura locations, while a higher proportion (33%) of those with the highest educational qualifications (mostly male) were located in Windhoek as opposed to 4% in Katutura. This echoes the findings that highly qualified business managers/owners are usually located in town centres, while the least qualified managers/owners are found in the black townships.

Table 4.15: Educational level of enterprise manager/owner by location of business (%) (N=239)

Grade	Windhoek	Katutura	Total %
None	2	12	7
Grade 1 - 4	4	13	9
Grade 5 - 9	16	34	25
Grade 10 - 12	45	37	41
Diploma/University	33	4	18
Total	100	100	100

Overall, entrepreneurs in the Katutura locations showed significantly higher proportions, beginning with entrepreneurs with no education and ending with those who had Grade 5 - 12.

It was further established that most of the entrepreneurs with highest and no education were concentrated in the manufacturing and service sectors.

Table 4.16: Educational level of enterprise manager/owner by nature of business. (%) (N=239)

Grade	Manufacturing	Trade	Services	Total
None	10	7	13	10
Grade 1 - 4	11	14	9	11
Grade 5 - 9	37	33	19	30
Grade 10 - 12	33	39	45	39
Diploma/University	9	7	14	10
Total	100	100	100	100

Table 4.17: Educational level of enterprise manager/owner by regions (%)

Grade	Khomas
None	10
Grade 1 - 4	11
Grade 5 - 9	30
Grade 10 - 12	40
Diploma/University	10
Total	100

The extremes in terms of educational levels between the northern regions and southern regions could be explained by the fact that historically, educational expenditure and opportunities were limited in the northern regions, and more widely available in Erongo, Khomas and Otjozondjupa. The extremes of education level in the Erongo and Khomas regions could be attributed to the high influx of people from the north since independence.

4.3.6 Skills Training

The provision of a variety of training courses, as well as on-the-job training are two possible ways of easing the low level of formal training identified in this report. However, no data on on-the-job training (for entrepreneurs) is available.

Table 4.18: Number of management courses attended by entrepreneur

Management Courses	%
None	82.8
One	9
Two	5
Three	1.2
Four or more	2
Total	100

The above table shows that a mere 17.2% of the interviewees had attended management courses. The majority and attended only one course. This could be for various reasons:

- A significant number of the businesses approached were cuca shops and shebeens, where more technical skills were required,
- The majority of the respondents did not have knowledge of the institution providing training,
- Funding was a problem,
- The low literacy rate of the respondents, inhibiting opportunities for attending training courses.

This study revealed the trend that more businesswomen are likely to attend courses (30%). Echoing the findings the entrepreneurs situated in the previously black location (more specifically, Katutura) are less likely to attend management courses as compared to their counterparts located in the Central Business District (14%). Respondents who attended management courses were requested to identify the various topics covered from the selected categories as shown in the table above. The most popular one turned out to be Marketing, followed by Personnel Management, Bookkeeping and Stock Control.

Table 4.19: Topics covered in management courses by entrepreneur

Topics Covered	%
Marketing	20
Buying	9
Costing & Pricing	10
Bookkeeping	12
Stock control	6
Production	5
Banking	5
Legal aspects of business	5
Personnel management	12
Other	8
Total	100%

NB. Figures may not add up to 100% because of rounding.

The survey revealed that 18.2% of the respondents attended technical courses, 10% were male entrepreneurs. More respondents from the manufacturing sector attended these courses followed by services and trade respectively. Compared to the northern regions, owners of businesses in the survey had attended fewer courses. This is quite surprising, taking into account the central location of the Khomas region where most centres are available.

Table 4.20: Number of technical courses attended by entrepreneur

Technical courses	%
None	81.8
One	13.8
Two	2.2
Three	0.2
Four and more	2.0
Total	100.00

It appears to be a question of accessibility, funds and commitment. Compared to the northern regions, the owners of the enterprises in the current survey had attended more courses.

4.4 Financing of the Enterprises

As in the findings of similar studies of SMEs, start-up costs were small, and the majority of the interviewed entrepreneurs started their businesses with their own savings and had never applied for a loan. Loans that had been taken involved relatively small accounts, mainly used for equipment and raw materials.

4.4.1 Start-up costs and sources of start-up capital

The majority (70%) of the entrepreneurs interviewed in this study had started their businesses with their own savings. Family assistance was the second highest, with 13%, followed by loans from institutions (11%).

Table 4.21: Sources of Start-up-Capital by region. (%) (N=239)

Sources	Windhoek	Katutura	Total
Own savings	65	75	70
Family assistance	12	15	13
Loans from institutions	19	2	11
Borrowed from friends	1	7	4
Inherited	2	2	2
Sponsored	1	0	1
Total	100	100	100

A higher proportion of businesses in Katutura (75%) indicated they had started their businesses with their own savings, compared to 65% in Windhoek. In addition, family assistance (15%) and funds borrowed from friends (7%) were also important in Katutura, strikingly, only 2% of respondents in Katutura indicated they had used loans from financial institutions. On the contrary, there was a higher (19%) proportion of businesses started through loans from institutions in the Windhoek Region location. These discrepancies suggest a relationship between the sources of start-up capital and the location of the businesses. Thus, businesses in Katutura are more likely to start with own savings, family assistance and funds borrowed from friends than SMEs in Windhoek. This echoes the findings of the report: that own savings are more dominant in previously black location townships. These results confirm the fact that credit is less accessible in townships. On the other end, institutional loans are more common in town centres and industrial areas.

The data further indicates a relationship between source of start-up capital and sex of interviewee. Male entrepreneurs were found to have started their businesses through loans from institutions, own savings and borrowing from friends. On the contrary, female entrepreneurs mainly started through family assistance, sponsorship and inheritance. The differences could be attributed to a number of reasons:

- Financial institutions require collateral before granting loans, makes it easier for male entrepreneurs to get credit since the majority have reliable sources of income,
- Higher literacy levels, which is also a major requirement when applying for a loan. In most cases, business males are more literate than female entrepreneurs, thus putting them in a better position,
- The attitude towards risk of the two sexes - implying that male entrepreneurs are seen as less risk-averse than their female counterparts.

There was no significant relationship between business sector and source of start-up capital. However, the data revealed that the majority of enterprises in the services sector had started their businesses with loans from institutions, reflecting the dominance of men in this sector, mainly involved in activities such as electricians, garages, plumbers etc. On the other hand, in the manufacturing sector inherited resources were more likely to be used. This also reflects the dominance of women in activities such as bakeries, beer/liquor breweries and other activities which comprise a significant proportion of the manufacturing sector. The trade sector seemed to have used more of each source on average.

It is interesting to note that almost 70% of businesses had start-up costs lower than N\$ 5 000; of this more than 90% were located in Katutura, explaining the considerable differences with the average of businesses located in Windhoek areas.

Table 4.22 shows that the overall average start-up cost was about N\$ 21 000.

Differences emerged also with regard to gender, with start-up costs higher for male than female entrepreneurs; this could be explained by the fact that females were generally involved in manufacturing activities such as home brewery and sewing, which did not require high start-up costs. Service sector businesses had the highest start-up costs. This can be explained by the type of manufacturing and service activities recorded.

Table 4.22: Average start-up costs N\$. (N = 239)

	Mean	Median ¹
<i>Sex of Interviewee</i>		
Male	26 784	2 000
Female	13 593	700
<i>Nature of business</i>		
Manufacturing	18 024	1 000
Trade	21 431	1 000
Services	26 039	3 000
<i>Location of business</i>		
Windhoek	81 777	30 000
Katutura	6 109	1 000
	Mean	Median
Total	21 389	1 500

1. Firms are excluded which had start-up costs higher than those specified according to table 1. The results do not change significantly by including the large firms. The average, however increases by N\$ 10000. Median is the middle position of a ranked data set.

4.4.2 Loans

One would have expected more respondents in the Khomas region to have applied for loan as compared to the northern regions. Surprisingly, only 20% of respondents indicated they had applied by a loan in the Khomas region . The fact that 80% had never applied for a loan could be an indicator that the majority of entrepreneurs are not highly motivated to apply for a loan.

Table 4.23: Loan applications (N= 239)

Applied	Number	%
Yes	48	20
No	191	80
Total	239	100

The data show that a relatively low proportion (35%) of all respondents in the Windhoek location had applied for loans, compared to only 15% of all respondents in Katutura, 65% of all respondents who had applied for loans reported having received their loans. In other words, of ten applications, about 6 are likely to be approved. However, Windhoek applicants were more likely to receive loans than those in Katutura. This is shown by the fact that 82% of respondents in Windhoek, had received loans, compared to only 53% in Katutura. This echoes the findings that it is easier to get a loan in town centres and industrial areas than in the rural locations.

Table 4.24: Received a loan (N= 99)

Received	Number	%
Yes	64	65
No	35	35
Total	99	100

A higher proportion (22%) of female respondents had applied for loans compared to 19% of all male respondents. However, more (69%) male entrepreneurs indicated having received loans than their female counterparts; there was only a 10% (male 10% higher) difference in the likelihood of one sex receiving a loan than the other.

The fact that male entrepreneurs and applicants from Windhoek are more likely to receive loans could be attributed to a number of reasons such as:

- Higher literacy rate of men and entrepreneurs in Windhoek as compared to those in Katutura,
- Male entrepreneurs (and businesses in town) are more likely to provide collateral as compared to their female counterparts, and those in Katutura.

it was further found that manufacturing businesses were more likely to apply for a loan (22%) than services (19%) and trade (17%). It was found in this study that applicants from the manufacturing sector had a higher proportion among the recipients (55%) followed by the service sector (30%) and then trade and construction 14% and 1% respectively.

Entrepreneurs who had not applied for a loan from an institution were asked why they did not do so. About 29% of respondents felt they did not need a loan. 12% cited lack of collateral (security) to be another reason. This current state of affairs could be reversed by providing intensive training. This is because the current scenario could be attributed to the fact that the majority of entrepreneurs do not have adequate information and knowledge about financial procedures.

Table 4.25: Reasons for not applying for a loan from an institution

Reason	%
Interest rates too high	8
Lack of collateral (security)	12
Banks too far	1
Loan application procedures too complicated	31
Don't need loan	29
Loan was available from other sources	8
Other	11
Total	100

11 For those firms having received a loan where asked whether they had faced any repayments problems. The small number of those who had applied and then received a loan made this exercise statistically insignificant.

This study found that 53% of recent loans were used for capital investment and 47% for stock/turnover related purchases. This results are still lower than the findings of the four northern regions, where a higher proportion of loans (64%) were used for capital investment and only 36% for stock-related purchases.

Table 4.26: Purpose of most recent loan

Purpose of most Recent Loan	%
Buildings	18
Equipment	28
Furniture	4
Vehicle	3
Goods for resale	18
Raw materials	21
Salaries	3
Other	5
Total	100

Most of the entrepreneurs (32%) favoured a loan amount of up to N\$ 5 000. This was followed by 12% for N\$ 5 001 - N\$ 10 000, and 8% for loans between N\$ 10 001 and N\$ 20 000. The size of loan wanted varied according to location. For example, the majority of respondents in Katutura restricted themselves to loans of up to N\$10 000, while those in Windhoek's Central Business District were more in favour of loans from N\$ 20 000 upward. This is a reflection of the sizes of businesses in these two areas, and the fact that many of the businesses in the Katutura location lack collateral, compared to their well-established counterparts in the Windhoek location.

Table 4.27: Amount of prospective loan by location of business (%)

Size	Windhoek		Katutura		Total	
		%		%		%
Up to 5 000		6		40		32
5 001 - 10 000		7		14		12
10 001 - 20 000		8		8		8
20 001 - 50 000		11		6		7
50 001 - 80 000		7		3		4
80 0001 - 100 000		8		2		3
Over 100 000		21		2		6
Not want a loan		32		26		27
Total		100		100		100

Those in trading activities were more in favour of loans between N\$ 5 000 and below. The manufacturing businesses dominated here, together with those in services. On average however, all levels of prospective loans were dominated by the manufacturing businesses followed by those the services and trade sectors.

The high degree of self-finance and finance through family, i.e. low degree of finance through the formal finance sector, particularly for start-up finance, should not be seen primarily as a constraint. Business start-ups do indeed present high-risk ventures. Banks are rational to be reluctant in providing traditional loans to new businesses. Cost of finance, which need to absorb these risks, are necessarily high. Self-finance is a proper way for starting businesses. However, there is a large scope to address these issues through a number of innovative finance instruments not been applied to Namibia.

4.4.3 Saving

In most cases, the owner was the manager of the enterprise; and the financial position of the businesses was part-and -parcel of the household's total economy. Bearing this in mind it was essential to determine whether the respondents' way of life is supported by the business.

A question was posed whether they saved in their households, and not necessarily whether their businesses saved. Respondents from Katutura save significantly more than those in town. This could be attributed to the fact that potential business people in this area have to rely on their own savings in order to start up a business. This is because they have limited access to financial institution, as compared to their counterparts who are located in town.

Table 4.28: Does your household save? By location. (%) (N=239)

Save	Windhoek	Katutura	Total
Yes	56	66	61
No	44	34	39
Total	100	100	100

There is a slight gender disparity in terms of savings where male entrepreneurs tend to save more, which could be attributed to the fact that they are also more highly educated than businesswomen, and hence likely to earn more. Overall, the savings habit of respondents (by gender) was found to be very low in this study. For example, only 39% of men and 24% of women indicated that they made savings in this study. The extent of savings (i.e. how much saved) was however not specified, due to the sensitivity of the question.

Table 4.29 shows the regularity of saving in the Khomas region. According to the statistics, most of the savers (60%) in Khomas region do so on a monthly basis.

Table 4.29: Saving regularly in the Khomas and selected regions. (%)

Regularity	Khomas
Weekly	16
Monthly	60
Yearly	2
Irregular	22
Total	100

4.5 Problems Perceived in Businesses

To develop appropriate policies aimed at improving the conditions of SMEs the knowledge of the problem faced by the business is of paramount importance.

Table 4.30: Most important problem perceived by the business (N=239)

Problem	Number	%
Lack of payment	59	25.0
Lack of demand	48	20.0
Lack of credit for working capital	36	15.0
Lack of information on cheaper sources of goods	26	11.0
Lack of marketing information	12	5.0
Lack of management training	10	4.0
Lack of credit for investment	10	4.0
Lack of labour with skills required	10	4.0
Lack of technical training	7	3.0
Inability to keep labour with skills required	2	1.0
Lack of on-site management advisory services	2	1.0
Lack of technical information	1	0.0
Other	17	7.0
Total	239	100.0

As one may observe from the table, 25% of all businesses singled out lack of payment as a major problem, with 20% experiencing lack of demand for their products and services in second place. Followed by lack of credit for working capital (15%) and lack of information on cheaper sources of goods (11%). Other problems such as: lack of tools/equipment, too much/unfair competition, lack of proper buildings and lack of site/marketing place, represent 7% of the sample.

Of least importance among the problems is lack of technical information (0%) followed by inability to keep labour with skills required, and lack of on-site management advisory services, both with 1%. Between 3 and 5% of businesses cited lack of marketing information, management training, credit for investment, labour with skills required and technical training as most pressing problem.

Table 4.31: Degree of Problems (%)

Problems you are facing in your business	Major Problem	Small problem	No Problem	%
Lack of payment (late payment)	42	15	43	100
Lack of demand	35	21	44	100
Lack of credit for working capital	34	17	49	100
Lack of information on cheaper sources of goods	32	21	47	100
Lack of credit for investment	22	20	58	100
Lack of marketing information	22	20	58	100
Lack of management training	18	16	66	100
Lack of technical training	15	12	73	100
Lack of labour with skills required	13	16	71	100
Lack of technical information	10	15	75	100
Lack of on-site management advisory services	8	17	75	100
Lack of on-site technical advisory services	8	12	80	100
Inability to keep labour with skills required	8	11	81	100

Since respondents may face several important problems at the same time, an assessment was made of the degree of each problem. Otherwise the results from the table above can underestimate problems which are important, but not the most important.

The above table indicates the 'most important problem' as cited by respondents as being: lack of payment, lack of demand, lack of credit for working capital and lack of information of cheaper sources of goods as major; problems by 42%, 35% 34% and 32% of respondents respectively. This was followed by lack of credit for investment and marketing information (both 22%), lack of management training (18%) and lack of technical training (15%). However, as one may observe, it was only these four which were cited as either major or small problems by most businesses. With regard to the rest, one can clearly see that the proportion in the 'no problem' column out-number the sum of the proportions of the first two columns of businesses with problems.

Respondents engaged in manufacturing activities, were on average likely to face more problems compared to those in service and trading activities.

- Lack of payment was seen as a major problem by 29% in the service sector, compared to 24% and 21% for manufacturing and trade;
- Lack of demand ranked higher in the manufacturing sector (24%) than in the trade (12%) and service sectors (18%),
- Lack of working capital was a major problem for 19% of the trade sector while only 14% of those engaged in trade and service considered it a major problem.

On the other hand, male entrepreneurs on average are likely to face more problems than their female counterparts. Once again, this may be attributed to the fact that most of the respondents were male, 27% of males considered lack of payment a major problem compared with 23% of their female counterparts, while 18% and 4% of business-women respondents saw lack of credit for working capital and for investment as a major problem, compared with 15% and 3% of their male counterparts. This is an indication that women find it more difficult to get loans than men.

Lack of management training, lack of information on cheaper sources of goods and lack of market information were the problems.

Although these results on perceived problems are interesting, they have to be taken with care and should not be directly taken as indicators for necessary areas of assistance. Rather, based on this information, in depth interviews need to be made with entrepreneurs in identified priority areas. The perceived major problems do not always constitute the real immediate constraints. For example, problems in access to finance often reflect problems in formulating business plans (i.e. assistance needs to be given in this field, rather than in finance). Furthermore, entrepreneurs are often not able to perceive problem areas that will occur when they expand their business or enter into new business areas. However, business assistance often should help to do just this. For instance, areas as skills, on-site management advisory services are not seen as major problems.

4.6 Support services

In order to identify ways of solving problems facing businesses, respondents were asked to identify the type of support service needed, and whether that support was most needed, could be of help, or not really necessary .

In comparison with the Erongo and Otjozondjupa survey, the order of priority was very similar. Business planning in order to get a loan was seen as a type of support most needed by 40% of respondent. When adding the "could be help" category, we could say that 58% of enterprises are in need of this type of support.

32% of respondents considered credit for working capital sub contracting the next most needed form of support followed by market information 30% and electricity 28%.

Table 4.32. Support services needed (%)

Support services needed	Most needed	Could be of help	Not really necessary	Total
Business planning to get a loan	40	18	42	100
Credit for working capital or investment	32	21	47	100
Sub-contracting	32	14	54	100
Market information	30	24	46	100
Electricity	28	13	59	100
Telephone/Fax	22	16	62	100
Ideas about products	21	24	55	100
Water	20	13	67	100
Transport	19	18	63	100
Advice on business organizations	19	23	58	100
Vocational training	17	14	69	100
Refusal removal	15	14	71	100
Other	25	1	74	100

Differences emerged when looking at the location; in the Katutura area there was a much higher demand for credit and business planning than in the Windhoek areas. Significantly, 100% of respondents who indicated as most needed the provision of basic infrastructures such as electricity, water, trading facility and refusal removal, were located in the Katutura areas.

Credit for working capital was cited as the most important type in the percentage in all three sectors, while business planning to get a loan and subcontracting was by far the most important in both the manufacturing and services sectors. No substantial gender differences emerged on the types of support as most important.

The survey tried to establish whether respondents would be willing to pay to get the required support. It is interesting to note that 85% of respondents answered positively to this question. This is a clear signal to the local municipality and the government that when there is a concrete need and the service provided is perceived as a valid form of support, the community is prepared to pay in order to obtain that service.

Table 4.33: Disposition to pay for support (N=239)

Are your prepared to pay for the required support?	Total	%
Yes	203	85
No	31	13
Don't know/perhaps	5	2
Total	239	100

As explain above on the perceived major problems, the information about most important services also refers to the perceptions of entrepreneurs. Again, while appropriate services can only be designed on the basis of information from the entrepreneurs and in co-operation with the entrepreneurs, this is not enough. In particular, entrepreneurs are necessarily not aware about the numerous innovative mechanisms to assist SME, in finance as well as business services.

4.6.1 Awareness of Support Services

A question was posed in the survey to determine the extent of awareness and popularity of credit lending, training and and/or advisory service institutions. Businesses were asked whether they had heard of or used a range of organisations that could supply loans and / or training and advice.

Table 4.34. Awareness of Support Services. (%) (N = 239)

	Aware	Used	Unaware	Total
Commercial Bank	79.7	8.5	11.8	100
Rossing Foundation (Education)	76.4	9.0	14.6	100
First National Bank	73.6	20.8	5.7	100
Bank Windhoek	72.4	18.1	9.5	100
Standard Bank	72.0	23	5.0	100
Namibia Development Corporation	63.8	11.3	24.9	100
Agri Bank	63.2	6.8	30.0	100
Development Fund	46.1	2.9	51.0	100
Institute of Management & Leadership Training	31.3	7.2	61.5	100
Namibia Development Trust	30.2	2.0	67.8	100
Co-operation for Development	16.7	2	81.3	100
Other	31.8	68.2		

The Commercial Bank is best known, with 79,7% of those interviewed having heard of the institution, with the three other main banks, First National Bank, Standard Bank and Bank Windhoek acquiring popularity on an almost-par basis, ranging between 72% and 73.6%. Despite its popularity, the Commercial Bank emerged as one of the least-used institutions, the most utilized being its main competitors, First National Bank (FNB), Standard and Bank Windhoek as well as other sources.

The Co-operation for Development was virtually unheard of, scoring a mere 16,7% popularity, compared to the rest of the selected organisations which rated between 30% and 80%.

Overall, it appears that the most well-known and -utilized institutions are the various local banks, whereas the institutions that provide training are hardly consulted. These results echo the findings in that only the formal banks were known as providers of credit and services.

The most unknown organization turned out to be the Co-operation for Development followed by NDT, and IMLT respectively. This raises questions concerning the real impact these institutions have in promoting SMEs.

When considering the knowledge and the use of the organisations among the different areas, it is surprising how little they are known in the Katutura areas. Of those institutions which should promote the development of SME, only the NDC and the Rossing Foundation are widely known, though only the first is also extensively used. Bank institutions are the most known in both the Windhoek and Katutura areas, probably due to the number of branches, First National Bank is most used in the Windhoek areas while the Commercial Bank is not used bank in the Katutura areas.

No gender differences emerge when considering the level of knowledge about the organisations. The only differences emerge with regard to NDC, which is most known and used by men, and the Rossing Foundation which is most used by women. Sector activities do not differentiate with regard to both knowledge and use of the institutions.

4.7 Indicators of Sustainability of SME's

4.7.1 Change in Turnover and Employment

The data indicate that 50% of businesses had increased their turnover from 1998 to 1999 compared with 18% for whom it decreased in the same period. The location of the business or the sex of the entrepreneur did not influence those percentages. Respondents in the services activities experienced the highest growth (55%) followed by manufacturing (50%); trade activities had the lowest growth with only 41% of those engaged in the sector experienced growth.

Table 4.35: Change in turnover by location (%)

<i>Compared to 2001, have sales /turnover increased in 2002</i>	Windhoek	Katutura	Total
Grow strongly	15.1	13.9	14.5
Grow slightly	33.3	36.8	36.0
<i>Growth</i>	<i>48.4</i>	<i>50.7</i>	<i>50.1</i>
Remain constant	28.0	32.6	31.5
Fall slightly	16.1	11.6	12.8
Fall strongly	7.5	5.1	5.6
<i>Fall</i>	<i>23.7</i>	<i>16.7</i>	<i>18.4</i>
Total	100	100	100

As indicated in Table 4.36, more than 50% of respondents were optimistic about growth performance in the year 2000, and only 15% very pessimistic for the future. The perception of growth was higher in the services sector (56%) than in the manufacturing (48.3%) and trade sectors (47%). 55% of those in the Windhoek areas anticipated growth in the coming year compared to 49% of those in the Katutura areas. The same difference in perception was recorded among male and female respondents 53% of male had positive expectation as compared with 48% of female.

Table 4.36: Business performance in 2001 (turnover)

	Count	%
Grow strongly	37	16
Grow slightly	84	35
<i>Growth</i>		51
Remain constant	84	35
Fail slightly	23	10
Fail strongly	11	5
<i>Fail</i>		15
Total		100

The same positive outlook was not registered regarding future prospects for employment. Only 27% of the businesses anticipated an increase in employment in the year 2001 (7% strongly and 20% slightly). Men were more optimistic than women in terms of employment-creation. A high percentage of respondents (64%) in both locations and in all three sectors felt that employment in 2000 would remain constant. These findings confirmed the overall view that the SME sector is not in a strong position to generate employment, once again echoing the results of the previous surveys where it was found that respondents were more positive towards an increase in turnover than increase in employment.

4.7.2 Change in Household Standard of Living

36% of respondents felt that their standard of living had increased during the last year, while only 19% felt it had decreased and 40% felt it remained constant. It is significant that the proportion of those who felt the increase in the standard of living was higher in the Katutura areas than in the Windhoek areas. This represent a positive result, indicating that the large differences in incomes and economic environment between the two urban areas are at least closing to some degree, rather than widening.

Table 4.37: Change in standard of living

	Windhoek	Katutura	Total
Increased	29.5	37.8	36.0
Decreased	25.7	16.9	18.8
About the same	42.9	39.2	40.0
Do not know	1.9	6.1	5.2
Total	100.0	100.0	100.0

4.7.3 Change in Saving

Survey indicated that 36% of those interviewed had changed their savings behaviour, increasing household savings compared with the year before, while only 20% had decreased and for 42% it remained the same.

Different patterns emerged between the businesses located in the Katutura and Windhoek areas. 38% of those in Katutura had increased their household savings compared with only 26% of those in the Windhoek areas.

Almost the same percentage of male (35%) and female entrepreneurs (37%) responded that their household savings had increased compared with a year before, while a higher percentage of men (22%) had decreased their saving habits as compared to women (16%)

There was no significant relationship across sectors with changes in savings behaviour, although a higher percentage of those involved in manufacturing (23%) activities had reduced their savings when compared to the other sectors (19% services and 12% trade).

Table 4.38: Comparison with saving a year ago in percentage (N=239)

	Windhoek	Katutura	Total
More	26	38	36
Less	33	17	20
About the same	41	42	42
Do not know	0	3	3
Total	100	100	100

4.7.4 Growth in Employment

The findings from the study confirm the overall impression that employment may increase through the establishment of new firms, but not through the expansion of existing firms. However there are some signs of progress. Despite the fact that two firms had not changed their employment, the number of firms that had increased their staff had not changed their employment, the number of firms that had increased their staff was far greater than the number of firms for which it had decreased.

4.7.5 Pushed or Pulled

Entrepreneurs were asked whether they would have preferred to be wage earners at the outset (as well as now) of their businesses or to be self-employed. This was to determine whether they were attracted by self-employment or forced by their inability to get employed somewhere else.

The majority of respondents (59%) felt they were pulled to self-employment (i.e. preferred not to be wage earner) at start-up while 34% felt pushed, and the remaining 7.1% declined to respond. When asked whether they preferred to be wage earners at the time of the survey, 34% answered yes while 59% said no.

It was established that the proportion of respondents who had previously preferred to be wage earners in the Windhoek location had increased from 26% to 33%; meanwhile, that of the Katutura location was found to have decreased from 36% to 33%. Similarly, the proportion of those who did not prefer to be wage earners at start-up was found to have decreased from 68% to 56% in the Windhoek location; and increased from 57% to 60% in the Katutura location. These results vindicate the findings that there is a trend towards a preference for self-employment in the rural locations and away from preferring self-employment in the town centres.

Table 4.39: Preferred to be a wage earner at start-up or now

	Preferred to be a wage Earner at start-up	Prefer to be a wage earner now	Total %
Yes	34.0	33.6	33.8
No	59.0	58.7	58.9
No response	7	7.7	7.4
Total	100	100	100

Overall, the data present a picture that the majority of entrepreneurs are not only in business for survival purposes. This is vindicated by the higher proportion of respondents (more specifically in Katutura) who did not prefer to be wage earners, which had increased from 57% to 60%. This could perhaps be attributed to the fact the government policies (such the establishment of industrial parks) aimed at promoting SMEs are starting to have some spill-over effects.

An increase in the number of enterprises in the trade and service sectors preferred to be wage earners at start up than now; indicating that more prefer self-employment now than did before. On the other hand, manufacturing recorded a constant 29% for both now and at start-up. This echoes the a fore-mentioned findings, implying that the manufacturing sector is not really doing well compared to other sectors. More male business owners (39%) preferred to be wage earners start-up than females (30%). This shows that more female business owners preferred to be self-employed at start-up. However, there seem to be fewer female owners who are now inclined to be self-employed.

4.8 Government Policy and Programme on Enterprise Development

The solutions to the problems of poverty, unemployment and socio-economic inequity call for a multi-pronged approach, targeted carefully towards those businesses whose growth would contribute most to the achievement of the country's economic goals. Limited resources restrict support to SMEs over the medium term. Assisting such businesses with the identification and exploitation of wealth creating opportunities have a major impact on the country's socio-economic development as they provide employment and income to a large sector of the population.

The definitions of small businesses used in other countries are not appropriate for Namibia. In the European Union, for example, businesses employing less than 50 employees are designated small. Applying this definition to Namibia would mean that the vast majority of businesses would be designated as small, thus defeating the objective of targeting support to priority needs.

4.8.1 Size of the Sector

Estimates suggest that small businesses are the major source of employment and incomes on Namibia. They provide some form of employment to 500 000 people, approximately one third of the nation's workforce, ranking it alongside Government as the country's principal employer.

The size of the sector is growing. Each year, the workforce increases by 8 000 employees. The majority of new entrants find themselves with little option but to attempt to earn an income by trading or selling their services, usually in the informal sector.

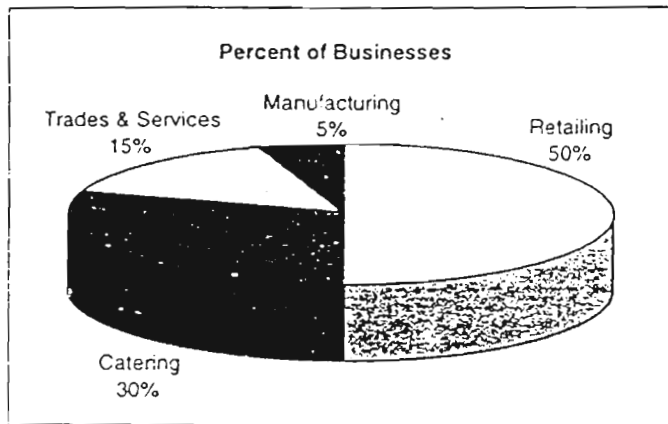
The majority of these individuals in the subsistence sector of the economy and the unemployed seeking to supplement incomes by periodically engaging in informal commerce.

4.8.2 Activities and Income

The activities of small businesses vary between the informal, unregistered sector and formally established businesses. The informal sector includes a large number of people in rural areas selling agricultural produce. The income from these activities are typically very low.

The activities of those engaged full-time in the informal sector also produce low income. Most are engaged in low value-added retailing and catering as shown in Figure 4.1

Figure 4.1 Activities of Small Businesses in the Informal Sector



The large majority of these businesses are one-person operations. The proprietor has very limited working capital with which to purchase trading items. Revenue generation is low. The mail survey reveals that over three-quarters of small traders in Namibia's Central Business District, Windhoek, had a turnover below N\$ 1000 per day. The low incomes of customers and strong competition among small traders keep margins and incomes low.

Traders and services include garage owners, plumbers, builders, electricians, carpenters as well as providers of personal services, such as tailors, hairdressers, cleaners, laundry and repair services.

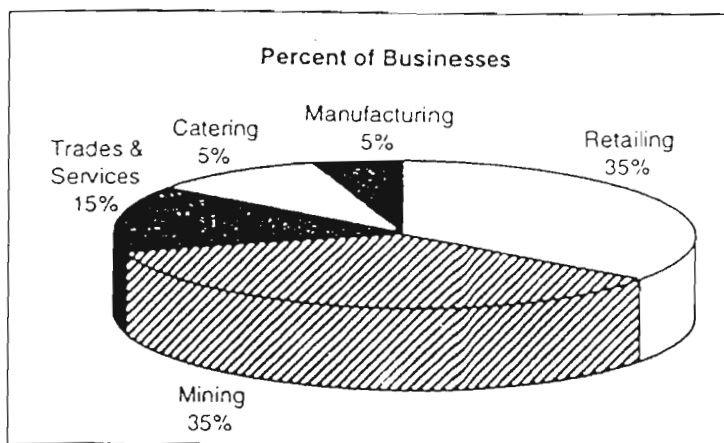
The manufacturing category consists of businesses utilizing many of the skills listed above, but they make and sell products on their own account rather than as a service to others. The majority of small manufacturers make and sell handicrafts, but there are a small number also which make consumer and industrial products.

Manufacturing businesses tend to be larger than retailers or service businesses, usually employing 3-4 employees. They also generate higher turnovers and incomes, but are capital intensive. Turnovers of up to N\$ 500 000 have been recorded.

The majority of informal entrepreneurs are 'pushed' into business rather than attracted to it. Most entrepreneurs would prefer wage employment. This is in contrast to many other countries where self-employment is preferred to wage employment and entrepreneurs cite the possibility of earning higher incomes as the reason for setting up businesses.

However the pattern of activities of formal sector businesses differs markedly from the informal sector. Retailing and catering are not as dominant as forms of business activity as they are in the informal sector. Small-scale mining is an important business activity as shown in Figure 4.2.

Figure 4.2 Activities of Small Businesses in the Formal Sector



In the formal sector, retailing covers a much wider range of consumer and industrial products. Small-scale mining covers base metals and semi-precious stones. Apart from the activities listed for the informal sector, in the formal sector, the category 'Trades and Services' includes also business services, such as accountancy and legal services.

Formal sector businesses are larger in terms of both employment and turnover. Although there are significant numbers of self-employed individuals, the majority of the businesses employ staff. For example, in the manufacturing sector, which has been the subject of considerable study, the average number of employees per establishment among small businesses is seven and the average turnover just over N\$ 500 000. Retailers are, of course, likely to have higher turnovers still.

As in the case of the rest of the world, Namibia's small formal businesses have a higher labour intensity than their counterparts. For every Namibian dollar invested in them, they create more jobs than larger businesses. As employment creation is a national priority in Namibia, it is clear that the higher the proportion of total investment small businesses receive the better for Namibia.

Despite the larger size of businesses, sole proprietorships are the main form of business in the formal sector as they are in the informal sector. In the formal sector, however, there is a significant proportion of private limited companies.

This review of Namibia's small business sector confirms that the definition shown in Fig. 4.1 would encompass the majority of small businesses. It would help give preference to manufacturing, an activity which is currently very poorly developed among small businesses, but which has the potential to generate the highest value-added and hence better income.

4.8.3 Female Entrepreneurs.

It is estimated that a large majority of part-time entrepreneurs and roughly half the number of full-time entrepreneurs are women. The formal sector is particularly poor in providing employment for women. Only 31% of formal sector employees are women and of these, the majority is in low paid jobs.

It is estimated that 53% of women are 'own account' workers in the informal sector, most on a part-time basis. Few manage to earn an adequate livelihood, particularly the 30-40% who are heads of households. Most are engaged in low profit margin but time-intensive activities, selling prepared food, home baking and brewing, sewing and crafts. Less than 1% of women in Namibia own formal businesses.

Women entrepreneurs are the most disadvantaged type of entrepreneur. In the past they had no legal title to property and could not enter into financial agreements without the consent of their spouses. As noted under constraints below, while small businesses in Namibia face severe constraints to growth and development, women entrepreneurs are in most instances, particularly disadvantaged.

4.8.4 Constraints to Growth

Worldwide small businesses face constraints to development and growth. The rate of business failure among them is high, particularly among new businesses. In Africa, it is estimated that 85% of small businesses fail.

Namibian small businesses are particularly disadvantaged. In the informal sector, most are new, having been established since Independence. Further the colonial past has made them confine their access to resources and spheres of activity to a very narrow part of the economy which is the most underdeveloped.

In the formal sector, they suffer from the structural weakness of the economy that wealth generation is concentrated in a limited number of sectors which do not have strong linkages to the rest of the economy. They have to contend also with entrenched competition from established competitors from South Africa, whose greater size enables them to use predatory business practices to see off competition from small Namibian Businesses.

4.8.5 Finance

Small businesses cite the lack of finance as the greatest constraint to their growth and development, whether they are formally registered or not. In the formal sector, the survey showed that nearly three-quarters of the capital employed was raised through internal generation. In the developed countries, it is common to find that 60% of the capital employed is raised through external sources, particularly lending from banks.

In the informal sector, the proportion of businesses with access to external finance was less than 5%, which is low by any standard. The causes of this very poor access to finance are partly inherent to the small business sector. In part, it is a result of the way financial institutions have developed in Namibia. Their retail networks and criteria for opening bank accounts and loans disadvantaged small businesses further. Women entrepreneurs were particularly disadvantaged as until recently, they owned no property to be used as collateral on loans and needed their husbands' permission to enter into financial arrangements. As a result many of our informal sector entrepreneurs do not even have bank accounts, let alone access to external finance.

Small businesses, particularly the new ones, need access not only to loan finance, but also to seed capital to bring ideas and opportunities to the point of becoming businesses and additional equity in the form of venture capital.

4.8.6 Markets

Not only does our small population lead to small markets, but the structure of the economy serves to make access to spending power extremely difficult. Both formal and informal small businesses regarded marketing as the main constraint to business growth, after finance.

The main difficulty for informal sector businesses is how to access the majority of spending power in the economy. At present, the informal sector serves only the black population of the country, 60% of which is estimated to have per capita incomes below N\$500 per annum.

Informal sector businesses have very little access to the spending power of the modern sector of the economy, which accounts for nearly three-quarters of the GDP and has a per capita income of over N\$70 000. In part this is because the goods and services the informal sector produces are not up to the standards of affluent consumers.

However, the main problem is lack of access and exposure to the market provided by the affluent. There have been no sites from which the informal businesses can sell to affluent consumers and no cost-effective ways of marketing their services. This is a problem which the industrial park programmes seeks to address. Women entrepreneurs, working from home in activities such as catering or sewing, have the least access of all.

For the formal sector small business, the difficulties of marketing access are also substantial. The large businesses which are the main generators of wealth in Namibia, are world class enterprises. They source their goods internationally, making it difficult for small, Namibian businesses to meet their needs competitively.

Small formal businesses complain also of a lack of market information, distribution intermediaries- often either South African owned or locked into suppliers in South Africa- and lack of resources with which to market their products and services.

A number of our handicrafts and manufactured goods are suitable for exporting, particularly those based on processing of local raw materials. However Namibia's export infrastructure is poorly developed. There is little information on export markets and limited assistance provided to develop new markets.

The Government has made a start in addressing the various marketing constraints faced by small businesses. With the help from the Commonwealth Secretariat, the Ministry of Trade and Industry has, since 1995, been piloting a Vendor Development Programme (VDP) which means building relationships between large retailers and small informal sector manufacturers. The purpose of this programme is to provide market access to the small manufacturers.

To date, commercial relationships for small enterprises with large buyers have been developed for vendors. The products in which success has been achieved are as follows:

- Food- bakery and catering products
- Furniture and wooden products
- Metalwork
- Leather

Vendors are mainly very small manufacturers employing no more than three people. Buyers for vendor products include the major retail outlets such as Pupkewitz and Friendly Grocer as well as large corporations like the Namibia Breweries and Shell.

Some Municipalities recognized the need to improve market access. A market aimed at small businesses has been constructed in Windhoek.

The MTI also built alternative markets for small businesses in several regional centres on the fast track, seven were completed in 1998. They also launched a major initiative to develop exports, with the help of the European Union addressing both information requirements as well as sector-based assistance programmes to exporters.

The need to break the barriers of market access and the duality that exists in our economy at present is quite urgent because those constraints prevent the informal sector from capturing the spending of affluent consumers. A single market need to be created. This requires addressing access to consumers for retailers, catering establishments and tradesmen and distribution channels for manufacturers. To ensure that small businesses produce goods and services up to standard for affluent consumers and export markets.

4.8.7 Purchasing

Fundamental to the ability of small businesses to compete against large rivals, Namibian or abroad, is the possibility to competitively purchase inputs- merchandise for resale or raw materials for manufacture. Though small businesses often fail to recognize it, this is a major constraint to their development in Namibia.

Informal hawkers and retailers have little access to cash and carry wholesalers. The majority purchase household goods for resale from formal sector retailers. This sets up the iniquitous position that their already poor customers, pay the highest prices for household goods.

The informal sector manufacturers also purchase from retailers. The high cost of raw materials negates any advantage their skills, hard work and low overheads may provide them to compete against imports. Even women working from home at very low rates of pay, find it impossible to compete against imports.

In communal areas, the situation is compounded by the numbers of intermediaries in the distribution chain. Often, the retailer purchases from an agent or distributor in the commercial areas who in turn may purchase from a distributor or agent from South Africa. Each intermediary adds a mark-up, making the product very expensive.

Small businesses in the formal sector are better placed than their informal sector counterparts. They still suffer disadvantage because they purchase smaller quantities and often have to buy from distributors rather than direct from manufacturers making them uncompetitive against larger rivals.

However with SACU tariffs being progressively reduced, sourcing of raw materials from third countries (non-SACU) countries offers the possibility of substantially reducing costs of merchandise for trading, particularly import of raw materials for manufacturing as these are exempt from duty.

So far, only a few forward thinking NGOs have attempted to address the issues of purchasing inputs competitively. Their activities are limited to a few industries and locations. There is thus a need for a national comprehensive programme to address this constraint.

4.8.8 Technology

The major problems regarding technology is that the productivity of capital among small businesses in Namibia is lower than large businesses. This is a reverse of the situation found worldwide where small businesses, because of their higher labour intensity, have higher capital productivity. The problem of low capital productivity is caused by the following inadequacies in technology used:

- i) most is sourced from South Africa and is suited to large scale manufacture. When used in small scale businesses, it results in a poor capital/ output ratio;
- ii) plant and machinery is expensive in South Africa, compared to third countries.

Generally, there is insufficient knowledge in Namibia of the availability of technologies suited to small businesses and of the sources of competitive suppliers of plant and equipment worldwide. This prevents craftsmen and manufacturers from purchasing competitive technologies.

Moreover, activities which could be undertaken in Namibia using small-scale technology are often unviable, when using the larger scale technologies available in South Africa. An example of this is cotton, where small scale gins could make cotton growing and processing viable in Namibia whereas the large scale gins found in South Africa are almost always found unviable due to a lack of sufficient raw material in Namibia.

Though efforts are being made by NGOs and government agencies to improve exposure to technology, there is nevertheless, a need to widen the technological knowledge base within the country. Mechanisms were implemented for demonstrating and transferring technologies suited to small businesses and to train entrepreneurs and employees in the use of such technologies.

4.8.9 Training

Despite adequate levels of literacy, most entrepreneurs receive little training. In the informal sector, the survey shows that less than 15% of entrepreneurs have received technical training, and the vast majority received no training at all in business management. In the formal sector, there is a need for practical vocational training.

From the consumer's perspective, the absence of universally recognized tests of competency makes the small, particularly informal tradesmen, highly risky. This contributes to the problem the informal sector faces in accessing the spending power of affluent Namibians. There is thus a need to introduce uniform tests of competency and to publicise them to consumers.

Attempts are being made to redress the situation. The National Vocational Training Act, 1994, sets up a framework for providing vocational training. The Act empowers the Vocational Training Board to set standards for vocational training and the content of trade tests. In addition a number of NGOs have taken up the challenge of providing training in business skills. This training ranges from simple book-keeping to fully fledged business planning.

However, it is recognized that in the field of vocational training, it is possible to strengthen the provision of part-time rather than full-time training to cover vocational skills as well as business management. There is also an attempt to alter curricula in secondary schools and vocational training centres to cover business skills, at least in a way applied to small business management.

4.8.10 Business Support

It is the nature of small businesses that their managerial resources are limited. Often the proprietor has to play the roles of marketing manager, operations manager, purchasing manager and financial controller as well as taking the key strategic decisions as befits the chief executive officer. The small scale of the business make it uneconomic to employ specialist managers. This places intolerable burdens on the proprietor and often, time constraints to the growth of the business. Women entrepreneurs attempting to constantly balance the demands of business and their families are particularly disadvantaged in this regard.

The practice worldwide is, therefor, for governments, national and/or local, to sponsor the establishment of business support agencies to provide management assistance to small businesses. Such support agencies may also be established by Namibian National Chamber of Commerce (NNCCI) and other voluntary bodies.

In Namibia we are fortunate to have a large number of NGOs recognizing the importance of the small business sector and are attempting to support its growth and development. Their activities are focused on the provision of loans, business advice and training skills including bookkeeping, costing, pricing and business planning.

Independence have brought a number of socio-economic changes in Namibia. Issues like poverty and inequity remain largely unresolved. This fact has necessitated continuous review of policies in order to come up with new measures to overcome these unresolved problems. One such measure is a vigorous programme of promotion of small business.

The Government recognizes the role small business sector can play in the country's socio-economic development and that despite this recognition, the approach to the development of this sector has been haphazard and inadequate. Government is therefor committed to transform the sector, as a priority, from its current state of deprivation and under-development into a lead sector of the economy.

Although the sector is generally known to provide income and employment to approximately one-third of the most disadvantaged section of the Namibian population, its overall contribution to the country's economic growth, development and poverty alleviation is minimal. In addition the income it provides fail to generate an adequate standard of living for either entrepreneurs or employees, due to the lack of concerted and systematic attempts to come up with a comprehensive policy framework and programme for the development of the sector.

4.9 Pro-active Programmes

The government is launching programmes designed to overcome the main constraints to the development of the sector and to help businesses exploit market opportunities.

4.9.1 Finance

Lack of finance is widely recognized to be the main obstacle to the development of small businesses. The Government is expanding and consolidating the existing small business loan scheme; and in addition to mobilizing funds internally and externally, it strives to incentivise the commercial banks to lend more to such businesses through a credit guarantee scheme. The provision for seed capital, leasing and support of venture capital are included. Small businesses will be enabled to have access to instruments of both equity and loan finance. While the government provides, in the short term, finance for small businesses, these measures will in the long term, also ensure that the commercial banks participate more actively in financing small businesses.

4.9.2 Market Access

The lack of market access is a major constraint to the growth of small businesses. This constraint could be addressed through five initiatives:

- Provision of better and larger numbers of market sites for small businesses through the industrial parks and SME modules development programme;
- Establishment of a Business Linkages Programme which will enable small service businesses to sell to larger businesses and the consumers.
- National expansion of the Vendor Development Programme, implemented by the Ministry of Trade and Industry, assisting small manufacturers to develop supply relationships with larger retailers;
- Development of merchandising intermediaries to market handicrafts and industrial goods;
- Provision of export market development support for small businesses.

4.9.3 Technology Transfer

Technological knowledge amongst small businesses is poor, inappropriate and expensive. The Ministry of Trade and Industry launched a technology sourcing programme attempting to establish an international database on technology for small businesses.

4.9.4 Purchasing

Disadvantage in purchasing inputs- raw materials or goods for sale- hinders the competitiveness of small businesses, lacking a well- developed network of wholesalers.

To overcome this constraint, the Government acted to:

- Establishment and maintaining an international database on sources of raw materials and inputs as well as exerting pressure toward tariff reductions on imports of raw materials under SACU. This is essential in helping small businesses to obtain these items from the most competitive suppliers in the world.
- Setting up a Group Purchase Scheme to bring together small businesses enabling them to purchase in bulk and/ or share the shipping cost of imports.

4.9.5 Sites and Premises

The building of industrial parks and SME modules implemented provides markets and other types of properties to small businesses:

- managed workshops or incubator units for supporting start-up businesses
- common facility centres whereby small manufacturers can have access to otherwise expensive or infrequently used equipment on a pay-per-use basis.

4.9.6 Training

To overcome lack of entrepreneurial skills in the SME sector, it is proposed that:

- The Institute of Management and Leadership Training (IMLT), which has considerable expertise and experience in this area, be assigned the training role to improve the competency of the sector's entrepreneurs
- SADC specialist trainer should be recruited to provide focused training as part of SME development.

4.9.7 Support Services

The Ministry of Trade and Industry serves as the lead ministry for SME development. The Ministry of Finance in conjunction with the Namibian Development Corporation (NDC) are responsible for the mobilization of the required financial resources for SME development. A credit committee serves as the first line of screening and evaluation of business ideas and the character of loan applicants comprising of representatives of regional and local authorities and local branches of the Namibia National Chamber of Commerce and Industry (NNCCI), regional offices of NDC and the Ministry of Trade and Industry. Its purpose is to minimize risks while, at the same time, maximizing opportunities for small entrepreneurs.

The lead role in the development of the small businesses is played by the sector's progressive entrepreneurs. It is on their ability to identify and exploit opportunities that the sector's future rests.

The Government's role in the sector's development is only as catalyst and enabler. However to overcome the present constraints to development, imposed by the past, the Government intervened strongly during the initial stages in the form of de-regulation and incentives improving the conditions for businesses to flourish.

CHAPTER 5

RESULTS (OBSERVATION AND FINDINGS)

5.1 Global Economic Overview

After experiencing a significant slowdown in 2001, there was a worldwide consensus of a global economic recovery in 2002, which is expected to continue in 2003. The global economic recovery is however dismally lower than expected earlier, with global forecasts now set at 2.8% in 2002 and 3.7 % in 2003 (Table 5.1). These forecasts nevertheless show an improvement from the growth rate of 2.2% recorded in 2001.

Table 5.1 World GDP growth

	2001	2002	2003(p)
World	2.5	2.8	3.7
United States	1.2	2.2	2.6
Euro zone	1.5	0.9	2.3
Japan	-0.4	-0.5	1.1
Developing countries	4.0	4.2	5.2
Africa	3.5	3.1	4.2
North Africa	3.1	2.7	3.3
SADC	2.5	3.5	3.6

United Source: *International Monetary Fund, September 2002*

p= Projection

The slow global economic recovery is attributed mainly to the sluggish growth in the US and European economy, compounded further by the low growth in Japan. (Table 5.1). After registering a high economic growth of 5% during the first quarter of 2002, which could be attributed by increased military spending in Afghanistan, the US economy has been weaker than expected with a growth of 1.1% and a 3.1% during the second and third quarters respectively. The accounting scams that toppled the US energy giant, Enron, and WorldCom had seriously rattled US investor and business confidence, thus contributing partly to the delay in the United States' economic recovery this year. The US economy is Forecast to grow by 2.25% in 2002 and improve marginally to 2.6% in 2003.

Weak domestic demand in Germany, France and Italy during 2002 dampened the Euro area's recovery. Germany and France, the major economies of the Euro Area, are faced with rising unemployment and budgetary problems. This has led to a slow growth during the second half of 2002, thus weakening consumer and business confidence considerably. Net exports, which have been the main source of the Euro Zone modest growth during the first half of 2002, are now being hampered by a weak global economy and a strong Euro. The lack of fiscal and monetary stimulus in the Euro Zone, also leaves growth to be domestic demand and a serious undertaking of labour and welfare reforms, the Euro-Zone is expected to grow by 2.3 % in 2003.

Japan appears to be emerging from its third recession in a decade, growing by 0.7% during the third quarter of 2002, after experiencing negative quarterly growth rates from 2001. Economic activity appears to be bottoming out with increased private consumer spending and recovery in business investment during the second half of 2002. The net exports are expected to weaken further as rising domestic demand boosts imports and the appreciation of the yen erodes competitiveness.

The Japanese economic growth is however forecasted to increase from a negative 0.5 % in 2002 to 1.1% in 2003, provided that a determined effort to address the nation's core economic problems. Such as the need for profound bank and corporate restructuring, and an aggressive monetary action is undertaken to deal with the problem of deflation is undertaken. Stock market prices plunged low unseen since the mid-1990's in the US, Europe and Japan (Table 5.1). Brazil and Argentina had serious currency and financial crises in 2002 which led to macro-economic instability and declining foreign direct investment.

Other reasons for the low global economic growth in 2002 were the declining stock market prices and the financial turbulence in Latin America. (Table 5.2).

Table 5.2 Changes in Equity Prices

(Percentage Change)			
	United States	Euro Zone	Japan
March – September 2002			
Total	-21	-27	-16
Technology	-34	-40	-25
Non-technology	-17	-24	-13

Source: Datastream & Reproduced in the International Monetary Fund, *World Economic Outlook*, September 2002

5.2 The Namibian Economy

The primary sector's contribution to GDP, viz., agriculture, fishing and mining and quarrying as may be seen in Table 5.3 below, stood at 22.9 % during the period (1990-1995). It then declined slightly to 20.2% between 1996-2001. The decline in the primary sector was attributed to the sharp fall in mining output from 14.4% (1990-1995) to 10.8% during the second half of post-independence period (1996-2001). A decline in the contribution of the agricultural sector also contributed to the decline in the position of the primary sector in regard to GDP, while the contribution of the fishing sector to GDP increased during the periods under consideration.

The secondary sector's share of the total GDP declined from 17.8% during the period 1990 to 1995 to 14.9% between 1996 and 2001. Over the period from 1996 to 2001, the manufacturing output as a percentage of GDP stood at 9.9%, compared with 13.2% between the periods 1990 to 1995. This decline in the sector's contribution resulted mainly from the poor performance of the agricultural sector, as the output of this sector and that of fishing, continue to dominate the manufacturing activities. Although the fishing output increased during both the first and second halves of the post-independence period, the increase was not significant enough to offset the decline in the agricultural output.

The tertiary sector's share of the GDP on the other hand, increased to 55.3 % during the period from 1996 to 2001 as compared to 51.7 % during the period between 1990 and 1995.

Table 5.3 Sectoral Percentage Contribution to GDP at Current Prices

Sector	1990-1995	1995-2001
Primary Industries	22.9	20.6
Agriculture and forestry	5.8	5.3
Fishing	2.7	4.5
Mining and quarrying	14.4	10.8
Secondary Industries	17.8	14.9
Manufacturing	13.2	9.9
Electricity and water	1.8	2.4
Construction	2.8	2.6
Tertiary Industries	51.7	55.5
Wholesale and retail trade, repairs	7.0	9.9
Hotels and restaurants	1.6	1.8
Transport and communication	4.4	5.9
Financial intermediation	3.4	3.6
Real estate and business services	8.1	9.7
Community, social and personal		
Service activities	1.1	0.9
Producers of government services	23.7	21.8
Other Producers	2.4	1.9

Source: Central Bank Statistics, 2001

Despite the slow recovery of the world economy in 2002, the performance of the Namibian economy during 2002. Real GDP is estimated not to be significantly different from that recorded in the previous year. Available data show that growth in 2002 was driven largely by a rebound in primary sector activities, viz., agriculture and mining as data analysis from CEO interviews conducted. Value added in the agricultural sector was mainly influenced by a substantial increase in the number of livestock marketed, as a result of adverse grazing conditions and firmer meat prices.

The increased value added of the mining sector was largely reflected in the improved performance of the diamond industry. This came about because one of the offshore diamond mining companies reached its full production potential. The value added of the fishing sector, on the other hand, continued to contract during 2002 as a result of adverse oceanic conditions.

The agricultural sector dominated the economic scene prior to Independence, being one of the major contributors to GDP and the largest employer in the economy. The situation has changed however, and the sector has gradually become less significant, as the services and fishing sectors assumed dominant roles in the economy (Table 4.3). Between 1990-1995, the agricultural output as a ratio of GDP stood at 5.8% compared with the 5.35 recorded from 1996-2001.

This was primarily due to a decline in livestock marketed as farmers were rebuilding their herds after the serious droughts of 1994/95 and 1995/96. Contributing to the poor performance in agricultural output was the steady decline of the agricultural sector, notable diversification has taken place in this agricultural sector with regard to the emergence of new agricultural products for exports. These new products include, table grapes, cotton and dates, although their contribution has not yet reached their full potential. The poor results of the mining output was attributed to the poor performance of diamonds and other mineral products due to depressed global demand, which caused prices to fall sharply, especially those of diamonds and uranium. The decline was exacerbated by domestic factors, such as the closure of Tsumeb Corporation Limited (TCL), which led to a virtual halt in the production of blister copper and other by-products such as lead.

The increase in the importance of the fishing sector has been due to investments in fishing companies since Independence as indicated in survey conducted. Also contributing to the improvement in the fishing output as a ratio GDP in the post-independence period were improved policies and guidelines and a restructuring of the sector.

The high contribution recorded in the second half of the nineties (1996-2001), was mainly due to improved oceanic conditions and better management of resources, which enable the Government to raise the total allowance catches (TACs) for pilchard and hake for 1998. The increase in the contribution of fishing was, however, insufficient to offset the decline registered in the other two sectors.

During the first half of the period following Independence, from 1990 to 1995, the services sector, excluding government services, stood at 28.0 %, compared with 23.7 % for the government service for the same period. The contribution of the services, improved significantly to 33,7 % during the second half of the Independence period (1996 to 2001) compared with the decline in government services to 21.8 % of GDP. The good performance of the services sector was attributed to an increase in the wholesale, retail trade, real estate and business service. The share this sub-group expanded as the result of the policy change by the Government, requiring the local incorporation of trade and service outlets in Namibia and a steadily increasing purchasing power by a wider section of the Namibian society.

5.3 Export Diversification

Namibia encourages export led growth through value addition. Exports however remain dominated by the marketing of primary commodities particularly mineral products. (Table 5.4). The share of mineral exports average around 46.0 % during the first half of the post-independence period (1990-1995). This increased to an average of 49.6 % during the second half of post-independence period (1996-2001). The increase in the share of mineral exports during the second half of the post-independence period was primarily due to an improved demand for primary commodities during the period under review.

Table 5.4 Sectoral Contribution to Total Exports

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2001	2002
Mining	53.0	54.4	49.9	44.8	38.0	38.2	42.1	43.0	36.3	42.1	48.1	46.2
Agriculture	7.7	6.7	6.3	5.0	7.8	7.2	7.4	3.9	4.5	4.0	2.9	3.3
Fishing												
(unprocessed)	0.1	0.1	0.4	0.3	0.1	0.3	0.3	0.2	0.3	0.3	0.3	0.7
Manufacturing	28.3	27.8	32.2	34.2	37.2	35.8	30.8	30.6	37.5	32.4	34.9	34.1
Other	11.0	11.1	11.6	16.0	17.0	18.8	19.7	22.5	21.7	21.5	14.1	16.4

Source: CBS, 2001

The share of agricultural products in total exports during 1996-2001 declined to 4.5% from the 6.6% recorded for the period 1990-1995. Exports of manufacture products, mainly fish and beer, increased from 32.3% per year during the period from 1990 to 1995 to an average of 33% from 1996 to 2001 indicating an increased value added income on these products.

Namibia's export income is generated by the sale of primary commodities eg. agriculture, fishing, manufacturing and mining (Table 5.4). After Independence the Government decided to embark upon an export diversification programme, to encourage exporters to move away from the traditional practice of exporting raw materials to value addition through incentives for manufacturing and the export of manufactured goods and the creation of EPZ regime incentives.

Despite these government efforts, it seems as if a structural shift has not yet taken place in the economy since Independence. The manufacturing sector of the country is still dominated by fish and meat processing activities, which started during the pre-independence era. Manufacturing activities have not been diversified to sectors other than those, which have already been mentioned. Then too, the contribution of manufacturing to GDP declined to 9.9% during the second half of the post-independence period 1996 to 2001 as compared to 13.2% of the first half of the post independence period 1990 to 1996.

5.4 Assets of Financial Institutions

The assets of the non-bank financial institutions are dominated by pension funds, which account for about 70% of the total assets of non-bank financial institutions. The assets of pension funds accounted on an average for about 31.9% of the total assets of the Namibian financial system during the period 1991 to 2001. The second biggest category of non-banking financial institutions is the insurance companies (short-term and long-term) which accounted for about 10% of the total assets of the Namibian financial system in 2001. It is important to note that the share of unit trusts in total financial assets increased rapidly from less than 1% since the establishment of the first unit trusts in 1994 to about 5.5% in 2001.

Table 5.5 Assets of the Namibian Financial System

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Financial Assests	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Banking System	72.7	68.8	67.3	67.5	67.5	62.6	55.2	52.7	54.0	52.2	51.4
Commercial Banks	49.8	46.8	44.0	39.7	42.0	45.7	40.5	37.9	38.1	38.1	36.0
Central Banks	3.3	2.4	6.0	13.3	12.3	6.1	6.0	6.6	7.2	6.3	7.5
Other Banking											
Institutions	19.6	19.5	17.4	14.4	13.2	10.8	8.7	8.3	8.5	7.8	7.9
Non-Bank Financial											
Institutions	27.3	31.2	32.7	32.5	37.5	44.8	47.3	46.0	46.0	47.8	48.6
Pension Funds	27.3	31.2	31.4	30.9	30.7	35.5	31.6	34.3	31.7	31.1	33.2
Unit Trust	0.0	0.0	0.0	0.2	0.4	0.6	1.1	1.4	3.0	4.4	5.5

The significant increase in the share of the insurance sector is a result of South African insurance companies converting their subsidiaries into fully-fledged Namibian subsidiaries.

Source: CBS 2001

Financial institutions not only increased in terms of asset size but also in terms of numbers of institutions (Table 5.5). For example, the number of pension fund institutions increased from less than 200 at Independence to about 500 in 2001. Similarly, the number of unit trust management companies as well as funds administered by these companies, increase significantly during the same period. By 2001 there were 7 registered unit trust management companies, managing about 23 different types of funds. On the other hand, the number of commercial banks remained at a constant five during the period under review. The significant increase in the share of the insurance sector is a result of South Africa insurance companies converting their subsidiaries into fully-fledged Namibian subsidiaries eg Old Mutual Insurance Company.

Similar to the non-bank financial institutions, the numbers of financial auxiliaries, such as assets management companies and stockbrokers have also been on the increase since the mid-1990s. For example, the number of stock broking firms increased to 7 during the same period.

The establishment of the Namibian stock exchange in 1992, the introduction of regulations which require institutional investors to invest at least 35% of their assets domestically, as well as the placement of the development capital portfolio of the GIPF with assets management companies in 1994-95, are cited as some of the reasons for the rapid development of these institutions after independence.

While the number of stock-broking companies and assets management companies has increased rapidly since Independence, the services they offer to institutional investors are often limited. To a great extent these institutions often depend substantially of the advice of parent companies outside the Namibian economic territory. Also, the number of financial instruments, such as derivatives and structure finance offered by local assets managers and stock-broking firms are limited compared to the South African market. This is partly to be blamed on the small domestic market and lack of capacity by local assets managers and stockbrokers. Nevertheless, the mere presence of these institutions has greatly enriched the Namibian financial system.

Another way of measuring the growth of the financial sector is a consideration of the level of M2 in relation to GDP. The broadly defined money supply (M2) as a ratio to GDP increased from below 30 percent in 1991, to 44.3% in 2001. This ratio gives a rough indication of financial deepening and the size of the banking industry in relation to the economy. The increase in this ratio means that the banking sector has been progressively more able to raise capital for growth and the diversification of risk in the economy.

5.5 Credit Developments

This section focuses on the credit extension of the banking system, i.e the combined credit extension of commercial banks and other banking institutions. Cognisance is taken of the fact that credit is also extended by other financial intermediaries. Due to data constraints however, this would not be considered. Furthermore, it could safely be assumed that the banking sector accounts for the bulk of credit extension in Namibia.

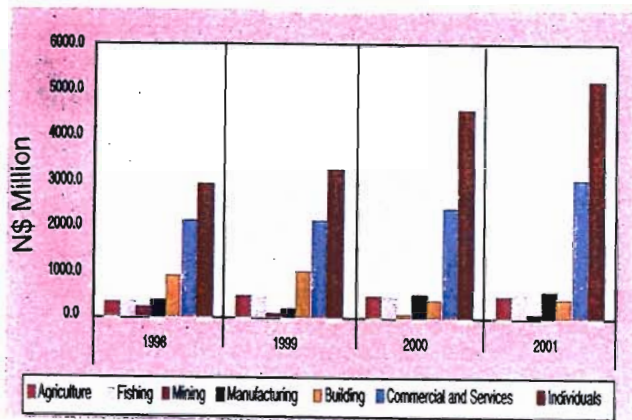
Table 5.6 Credit by Type (percentage shares)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average
Loans and advances	78.6	71.9	81.0	80.5	79.7	82.0	82.8	83.0	82.4	78.1	0.80
Mortgage loans	39.4	35.3	37.9	36.8	36.4	35.4	38.7	45.8	46.8	47.3	0.40
Other loans & advances	39.2	36.6	43.0	43.7	43.2	46.6	44.0	37.2	35.6	30.7	0.40
Instalment credit	13.0	20.6	16.1	16.6	17.5	16.2	15.1	14.3	14.4	15.4	0.16
Other Banking											
Leasing transaction	2.4	1.8	1.1	0.8	1.1	1.0	1.0	0.9	0.8	0.8	0.01
Bills discounted or											
Purchased	3.3	2.4	0.7	1.4	0.2	0.2	0.7	0.3	0.0	0.0	0.01
Other claims	4.4	1.5	1.1	0.8	0.5	0.5	0.5	1.5	2.4	5.7	0.02

Source: Bank of Namibia Annual Report 2002

The direction of private sector credit confirms the bias of credit extension towards consumption purposes (Chart 5.1). The sectoral analysis of commercial bank credit shows that the combined allocation of commercial bank credit to the sectors, agriculture, fishing, mining, manufacturing and building and construction, was only N\$1.7 billion or 29.4% in 1995. This share had declined further to 21.3% by the end of 2001. These are regarded as the more productive sectors of the economy and it is assumed that if more credit were channeled to these sectors, the economy might grow at a faster pace. Borrowing under the category 'Commercial Services' has taken an average share of 27.6% annually for the second largest category.

Chart 5.1 Direction of Credit in Namibia



The growth rate of domestic credit, comprising private sector credit and net claims on the central government, was very robust during the first half of the 1990's. (Chart 5.1). After growing at an average of about 25.9% during the period 1991-1996, private sector credit slowed down to a rate of about 11.6% during the period 1997-2001. Despite this relatively healthy performance in domestic credit extension, a closer analysis reveals a strong bias of commercial bank credit towards consumption purpose. Credit to individuals consistently dominated the total private sector credit. In 1995 total borrowing by individuals was close to N\$4.2 billion and it has almost doubled to reach N\$8.2 billion by the year 2001. Credit extended to the business sector increased from N\$2.0 billion to N\$4.5 billion during the same period. While the share to total private sector credit to individuals accounted for about 65 percent, the business sector accounted for the remaining 35%.

An analysis of credit by type, shows that the biggest portion of private sector credit goes for consumption purposes. During the period 1992 to 2001 the credit types, 'other loans and advances' and instalment credit accounted on average for 60.0% of the total private sector credit average about 40.0% for the same period. The combined shares of claims have been negligible. Table 4.6 shows that there was a significant shift in terms of composition of private sector credit by type. Mortgage loans dominated the category of loans and advance overtaking other loans and advances and increasing from 39.4% in 1992 to 47.3% in 2001. On the other hand, other loans and advances decreased from 39.2% in 1992 to 30.7% in 2001. This implies that funds were increasingly used to finance mortgage loans instead of funding the working capital businesses, which are represented by the category of other loans and advance. This was confirmed during survey conducted on business expansion in Namibia.

The strong post-independence growth in the financial service was driven by the Government's policy to ensure a proper Namibianization of the industry, especially in regard to insurance companies and specialized institutions such as unit trusts, stockholders and asset managers.

These services were largely provided directly from South Africa before Independence. The financial system in Namibia is relatively advanced by developing country standards, with a bank density of 20.000 people per bank. This is the second lowest in the SADC community following South Africa. The fact that the geographical distribution of banking services is highly skewed in favour of the country is however, a matter of great concern.

As a result, the majority of all Namibians do not have easy access to financial services. A study conducted by the Finmark Trust, estimated that in 2002 more than half of the Namibian population did not have an easy access to basic financial services.

The low level of commercial bank credit extension to the mining, fishing, manufacturing and agricultural sectors is somewhat disappointing as they rank amongst the major productive sectors of the economy. In terms of size they accounted for a sizeable 30.3% of GDP, with primary industries (agriculture, fishing and mining) at 20.1%.

It has been observed that recent measures in Namibia to widen the scope of financial services provided by financial institutions, such as the requirement that a minimum of 35% of the assets of insurance corporations and pension funds must be locally generated, have facilitated the emergence of new stock-broking firms and assets management companies.

5.6 Regional Competitiveness Profile

How competitive and dynamic is Namibia's service sector, in comparison with her neighbours? Namibia shares borders with Angola, Botswana, South Africa, Zambia and Zimbabwe. As South Africa remains the giant of the region, one could consider Angola, Botswana, Zambia; Zimbabwe and Mozambique as the main sub-regional competitors with Namibia, Botswana being the principal competitor.

Competitive conditions in Namibia compare favourably with neighbouring SADC countries (Table 5.7).

In particular, the indicators of service sector dynamism show Namibia to be ahead of her neighbours (excluding South Africa), in many respects. Apart from the fact that the non-government service sector is larger in Namibia, the service sector also makes the largest percentage contribution to GDP growth. Macro-economic indicators show how successful a country is in managing its own resource for better internal pricing, production and consumption as well as undertaking beneficial external trade.

Human capital indicators provide a way of evaluating the strength of the knowledge base- and hence productivity levels that exists, whilst the social indicators reflect the social environment in which production takes place. Infrastructure and utility costs are important components of the cost of doing business and, in particular, they reflect the extent to which the economy is internally integrated. In most of these respects, notably, macro-stability, health provision, and telephone density, Namibia appears to have comparative advantage.

The country has direct telecommunication links with major financial centers in the world, which is good for external trade and finance. A telephone density of 6.4 per 100 people is relatively high. Telecom Namibia has a customer base of about 17 000 subscribers while mobile Telecommunications Limited (MTC) has 150 000 subscribers. It has however, been difficult to achieve a higher subscriber rate, especially in the rural areas, due to capital constraints faced by the providers.

Table 5.7 Selected Indicators of Sub-Regional Competitive Environment

	Namibia	Angola	Botswana	Zambia
Macro-Economy				
Inflation (%)	9.3	38.0	8.5	21.3
Debt service/GDP (%)	1.3	13.4	1.4	13.9
M2/GDP(%)	4.5	na	20	na
Human Capital				
Physical/100.000	30	8	24	7
Tertiary students in science (% of enrolment)	4	na	27	na
Social Indicators				
Per capita GDP (1999 PPP\$)	5468	3179	6872	756
Gini index	0.7	na	na	0.52
HIV/AIDS (% adult)	19	3	36	20
Costs to Consumer				
3-minute local call (PPP US cents)	16	20	na	11
Infrastructure				
Telephone Density/1000	64	8	75	9
Internet hosts/1000	3.7	0.1	2.7	0.2

Figures relate to 2000, except otherwise stated.

Source: Asea 2002

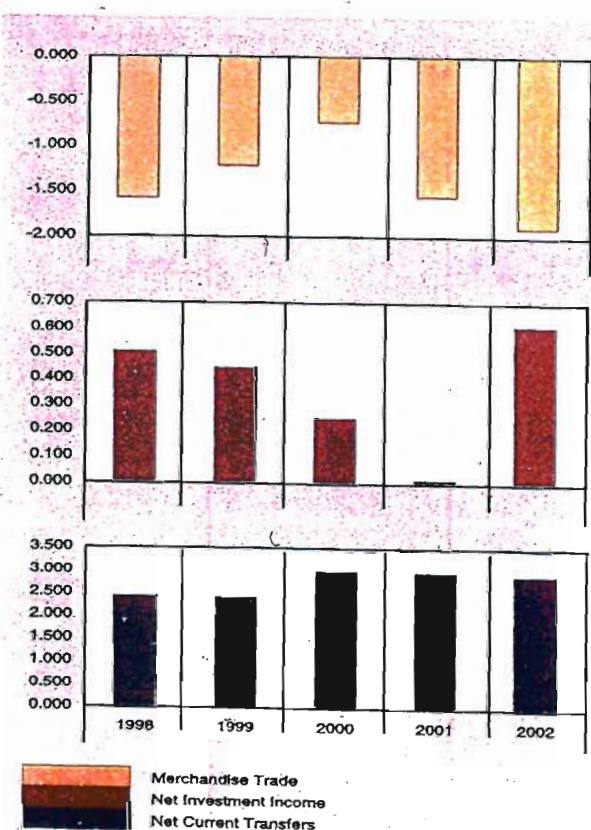
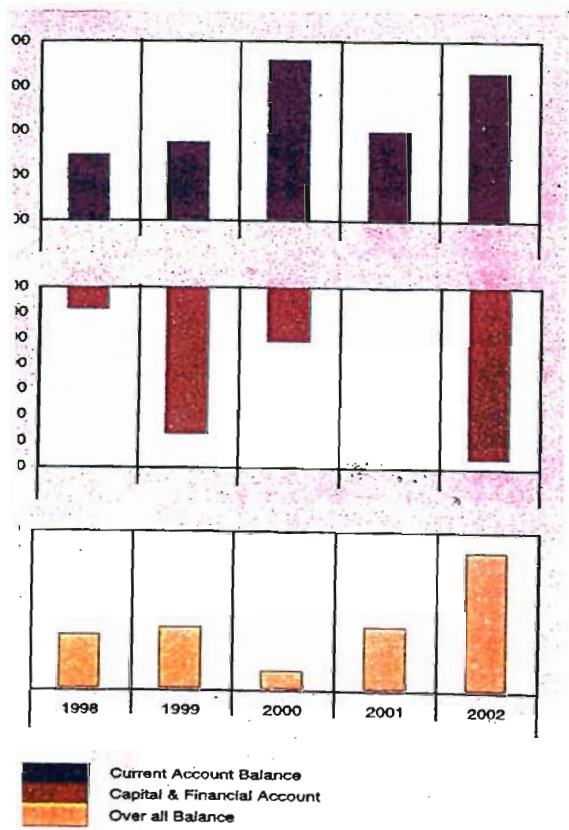
5.7 Balance of Payments

The overall balance of Namibia's balance of payments is estimated to have recorded a surplus of N\$ 781.2 million in 2002 following that of N\$ 356.9million in 2001. This was a result of an increase in the current account surplus, while the capital and financial account continued to record a deficit (Chart 5.2).

Namibia's mercandise trade deficit is estimated to have increased significantly during 2002 compared to the previous year (Chart 5.3).

Chart 5.2 Balance of Payments Major Accounts

Chart 5.3 Current Account-Sub Accounts (N\$ Billion)



5.7.1 Capital and Financial Account

The deficit in the capital and financial account is estimated to have increased in 2002 compared to the previous year. Huge net inflow in portfolio and other long-term investments were responsible for the increase in deficit. The outflows were strong enough to offset the inflows recorded in the other sub- accounts. Developments in the sub-components are displayed in Chart 5.3.

During 2002, foreign investment into Namibia is estimated to have decreased substantially to N\$1.9 billion compared to an inflow of N\$2.4 billion in 2001. The sharp decline in direct investment into Namibia was mainly due to decreased equity capital and retained earnings. Equity capital decreased from N\$3.0 billion in 2001 to N\$1.9 billion in 2002 while the retained earnings declined from an inflow of N\$134.7 million to an inflow of N\$345.3 million during the same period. This continuous inflow in direct investment in Namibia shows the commitment of foreign direct investors in the Namibian economy.

Net inflows in portfolio investment are estimated to have increased by N\$231.1 million in 2002 from N\$1.4 billion recorded in 2001 to N\$1.7 billion in 2002. As in the past portfolio investment in Namibia is dominated by the investment by Namibian residents in South African unit trusts.

Other long-term investments maintained its usual outflow with transactions related to pension fund and life insurance assets continuing to dominate this category. The net outflow in long-term investments is estimated to have increased by 41.1% to N\$3.2 billion in 2002 from N\$2.2 billion, recorded in 2001.

This trend is however expected to slow down in future with the establishment of Namibia Re-insurance Company (NAM-Re) that requires these institutions to reinsure their risk locally, instead of with foreign entities.

Other short-term investment witnessed an increased net inflow to N\$437.1 million in 2002 from N\$386.2 million in 2001. This item mainly reflects transactions between domestic banks and their parent companies in South Africa. Movements in this account are largely determined by the prevailing climate of credit in Namibia. An increase in demand for credit is generally mirrored by an inflow of money into this account, while depressed demand for credit leads to an outflow. However, though the year 2002 was characterized by a tight monetary policy, the demand for private sector credit was not depressed. As a result commercial banks decreased their foreign assets while at the same time increased their foreign liabilities during 2002 to meet the increased demand.

Taking into account all the transactions of the balance of payments, both on the current and the capital and the financial account, the overall balance of the balance of payments after the adjustment of valuation changes due to changes in the exchange rates fluctuations was N\$781.2 million in 2002. The stock of international reserves in Namibia increased from N\$2.7 billion as at the end of 2001 to N\$2.9 billion at the end of 2002. This level of reserves represents 2.2 months of imports cover slightly lower than the 2.4 in 2001. This situation needs improvement however, as this level is lower than that of the internationally accepted level of three months.

5.7.2 Foreign Trade and Payments

The overall balance of Namibia's balance of payments is estimated to have recorded a surplus of N\$ 781.2 million in 2002 following that of N\$ 356.9million in 2001. This was a result of an increase in the current account surplus, while the capital and financial account continued to record a deficit (Chart 5.3). This situation is a structural feature of the Namibian economy and reflects excess savings over investment in the economy. There is a need for this situation to be rectified through the identification of more investment opportunities, which will also support the growth and development process.

The growth in the value of merchandise goods imported contributed primarily to the increase in the trade deficit, while the value of the exports increased at a lower rate than that of imports. The value of total exports is estimated to have increased by 13.8% to N\$ 11.2 billion in 2002 from N\$9.8 billion in the previous year. The total value of imports on the other hand increased by 14.9% from N\$ 11.4 billion in 2001 to N\$ 13.1 billion in 2002. As a result the trade deficit increased to N\$ 1.9 billion in the previous year.

The year 2002 witnessed a sharp increase in the value of minerals exported. The value of diamonds exports rose from N\$ 4.5 billion in 2001 to N\$ 5.6 billion in 2002, while the value of other mineral products increased to N\$ 2.1 billion from N\$ 1.7 billion in the previous year. The rise in export of minerals was attributed to a recovery in the price of some base metals, especially gold, silver and zinc. The fact that one of the offshore diamond mining companies reached its full production during 2002, also contributed to the rise in diamonds exported during the year under review. Consequently, the contribution of mineral exports to the total exports increased from 62.8% in 2002.

The value of food and live animals exported increase by 0.2 billion in 2002 from N\$1.4 billion in 2001 to N\$1.6 billion in 2002. The increase in export earnings from food and live animals was mainly attributable to the improved marketing of livestock in different markets abroad. The improved export prices for livestock as well as the increase in the volume of grapes exported, especially during the fourth quarter of the year also contributed to the surge in the value of food and live animals exported.

Manufactured products, mainly fish, beer, soft drinks, ostrich leather and oil also performed better during 2002 when compared to the previous year. The value of these products exported is estimated to have increased to N\$ 1630.1 million in 2002 from N\$ 1612.3 million recorded in the previous year. The increase in the export earnings of manufactured products is mainly attributed to the return of stability in neighbouring Angola, which led to a surge in the volumes of beer, soft drinks and other commodities exported to that country.

The services account experienced a reversal from a net flow of N\$407.1 million recorded in 2001 to a net flow of N\$ 49.6 million in 2002. The improvement in the services account was mainly reflected in the sub component, which is estimated to have increased to N\$1.7 billion in 2002 from N\$1.1 billion in 2001. This may be attributed to the return of confidence in traveling to the Northern Okavango and Caprivi Regions in Namibia for both business and holidays. Another contributing factor were the mining activities in the Southern part of the country, which led to a greater spending on accommodation and other amenities by foreign experts. The improvement in the services account was further supported by a reduction in a net outflows in other private services from N\$ 738.2 million in 2001 to N\$ 668.9 million in 2002.

Net inflow on the investment income account stood at N\$608.8 million during 2002 as opposed to a small net inflow of N\$8.1 million in the previous year. The inflow recorded during the year under review is attributable to the high income received on portfolio and other investments as compared to the previous year.

Net current transfers receivable declined by N\$ 0.1 billion or 3.4% from N\$ 2.9 billion in 2001 to N\$ 2.8 billion in 2002. The decline was mainly due to a reduction in SACU receipts of the same magnitude to N\$2.6 billion from N\$2.7 billion in the previous year.

Thus the net effect of all transactions (goods, services, income and current transfers) resulted in a current account surplus increasing significantly from N\$ 975.8 million or 3.6% of GDP in 2001 to N\$1.6 billion or 5.3% as a ratio to GDP in 2002.

5.8 External Debt

Namibia has managed to keep its external debt at a sustainable ratio to about 17.8% during 2002 to GDP of about 17.8% during 2002 while it averaged at 16.7% from 2000-2002. (Table 5.8)

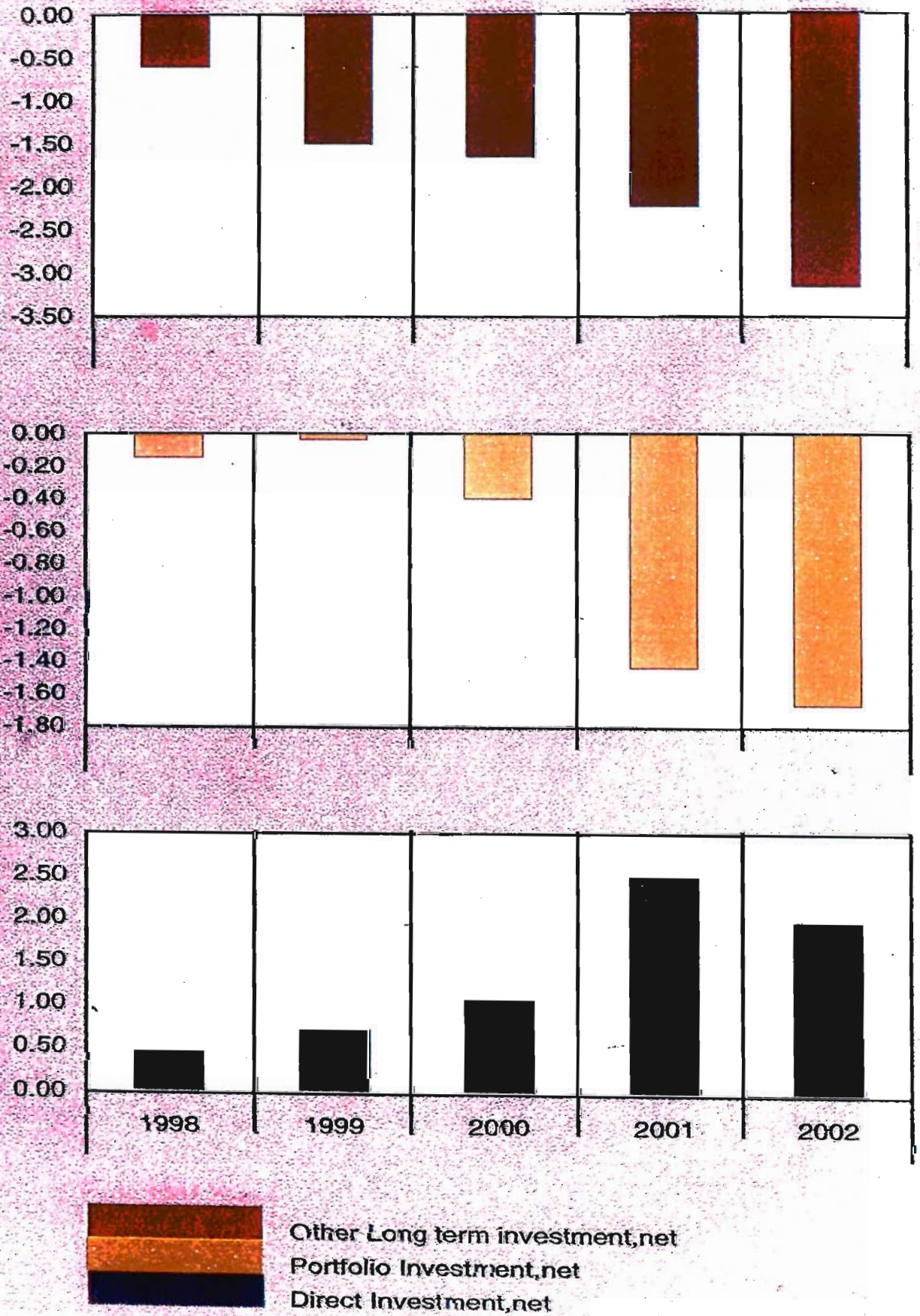
Table 5.8 Foreign debt of Namibia (N\$ Million)

		%	%		%	%
	2001	of total	change	2002	of total	change
External Debt Outstanding						
Central Government	1,613.0	32.2	77.5	1,478.6	27.5	-8.3
Parastatals	2,318.0	46.3	40.0	2,664.1	49.5	14.9
Private Sector	1,079.9	21.6	41.9	1,241.9	23.1	15.0
Total	5,010.9	100.0	50.7	5,384.6	100.0	7.5
External Debt Service						
Central Government	87.3	23.9	-44.9	36.9	9.5	-57.8
Parastatals	230.7	63.1	24.5	266.6	68.6	15.5
Private Sector	47.9	13.1	8.1	84.9	21.9	77.4
Total	365.9	100.0	-5.7	388.4	100.0	6.1
(in percent)						
Debt outstanding to GDP	18.4			17.8		
Debt service to GDP	1.4			1.3		
Debt service to Export	3.7			3.2		

Source: Bank of Namibia Annual Report 2002

The overall balance of Namibia's balance of payments recorded a surplus of N\$ 781.2 million in 2002 following that of N\$ 356.9 million in 2001. This was a result of an increase in the current account surplus, while the capital and financial account continued to record a deficit (Chart 5.4).

Chart 5.4 Capital and Financial Account Sub-Accounts (N\$ Billion)



5.9 Namibia's International Investment Position

Namibia's International Investment Position (Table 5.9) improved moderately from a net liability position of N\$4.7 billion in 2000, to N\$3.8 billion in 2001 as foreign assets increased more than the foreign liabilities. Namibia's foreign assets increased substantially by 25% to N\$12.1 billion by the end of 2001, from the level of N\$9.7 billion recorded in 2000. Foreign liabilities, on the other hand, increased only moderately by 10.35 to N\$15.9 billion at the end of 2001 from N\$14.4 billion recorded the previous year.

Table 5.9 Namibia's International Investment Position

Type of International Investment (N\$ Million)	1999	2000	2001
Foreign Assets at the end of the year	7 677.6	9 671.1	12 088.7
Direct investment abroad	258.2	340.2	122.8
Portfolio investment	4 024.7	5 108.0	7 573.6
Other assests	1 535.6	2 233.7	1 689.8
Reserve assets	1 859.1	1 989.2	2 702.5
Foreign Liabilities at the end of the year	12 068.0	14 416.0	15 895.3
Direct investment in Namibia	8 670.6	9 309.1	9 659.9
Portfolio investment	511.6	219.5	329.5
Other liabilities	2 247.3	4 536.6	6 894.9
Net Foreign Assets/Liabilities At the end of the year	-4 390.4	-4 744.9	-3 800.0

Source: Bank of Namibia Annual Report 2002

Table 5.10 Central Government Debt

Category of Central Government Debt	1999	2000	2001	2002	% Change
A. 1. External Debt	687.7	909.8	1 612.0	1 478.6	-8.3
2. Bilateral Loans	448.3	575.2	946.7	848.5	-10.4
3. Multilateral Loans	239.4	334.6	665.3	630.1	-5.3
4. Financial Institutions	0.0	0.0	0.0	0.0	0.0
5. Other	0.0	0.0	0.0	0.0	0.0
B. 6. Domestic Debt	4 363.60	4 808.70	5 494.8	6 468.5	17.7
7. Treasury Bills	2 430.70	2 640.00	2 799.7	3 561.8	25.6
8. Internal Registered Stocks	1 932.90	2 168.70	2 695.1	3 017.5	12.0
9. The Bank	0.0	0.0	0.0	0.0	0.0
10. Other	0.0	0.0	0.0	0.0	0.0
C. Total Debt (1+6)	5 051.30	5 718.40	7 106.8	7 962.6	12.0
D. Total Debt as % of GDP	22.20%	22.80%	25.74%	24.8	

Source: MoF and The Bank

5.10 Namibian Budget Expenditure

Table 5.11 shows that an average from 1999/00 to 2002/03 of about 49% of government funds were allocated to the community and social sector, which consists of education, health and other social services.

Table 5.11 Summary of budget expenditure by economic classification (%)

	1999/ 2000	2000/ 2001	2001/ 2002	2002 2003
Gen. Govt. Services	29.8	32.3	33.3	36.4
Gen. Public Services	13.8	15.7	17.6	18.8
Defence	7.2	7.3	7.3	8.3
Pub. order and safety	8.8	9.3	8.4	9.2
Comm. and Social Services	48.8	49.7	49.5	48.1
Education	24.0	23.3	21.3	21.0
Health	10.8	11.0	10.0	9.7
All Other	13.8	15.4	18.2	17.4
Economic Services	15.2	11.7	10.6	7.0
Exp. Not classified	6.4	6.3	6.6	8.5
Total Expenditure	100.0	100.0	100.0	100.0

Source: Bank of Namibia Annual Report 2002

5.11 Key Macro-Economic Indicators

Growth in consumption expenditure is expected to improve slightly to 3.1% in 2003 from an estimated growth of 2.5% in 2002 (Table 5.12). This expected improvement in consumption growth is mainly attributed to an improved inflationary outlook during 2003.

Table 5.12 Key Macro-economic Indicators (Percentage)

	2001	2002	2003
	Actual	Estimate	Forecast
Nominal GDP (N\$ Million)	27 231.0	31 270.0	35 545.0
% Total Real Consumption	3.6	2.5	3.1
% Total Real Investment	26.3	11.2	10.8
Exports of goods and service	12 075.0	14 883.0	18 782.0
% Nominal Growth	11.7	23.1	26.2
% GDP	44.3	47.8	52.8
Import goods and services	14 785.0	16 614.0	19 716.0
% Nominal Growth	22.0	12.3	18.7
% GDP	54.2	53.4	55.5
Trade balance	-2 710.0	-1 731.0	-934.0
% GDP	-9.9	-5.6	-2.6
Current account balance	1 001.0	970.0	1 657.0
% GDP	3.6	3.1	4.7
CPI (%)	9.3	11.3	10.2

Source: CBS

5.11.1 Investment and Consumption

Growth in consumption expenditure is expected to improve slightly to 3.1% in 2003 from an estimated growth of 2.5% in 2002 (Table 5.12). This expected improvement in consumption growth is mainly attributed to an improved inflationary outlook during 2003.

Gross Fixed Capital Formation is expected to grow satisfactorily by 11.2% in 2002. The satisfactory performance in real investment is due to continual increases in government projects as well as an increase in capital investment from EPZ, gas and oil exploration companies. The growth in real investment is projected to be sustained in 2003 at 10.3%, which reflects the commitment by foreign investors to expand their business activities in a country such as Namibia.

5.12 The South African Economy

The real economic output expanded at a 3.0 % annual rate during the third quarter of 2002, compared to 3.0 % (revised up from 2.2 from 2%) during the first quarter and 3.8 % (up from 3.1 %) in the second quarter. Even though real output growth slowed somewhat from the previous quarter, the South African economy continued to steam ahead in the face of domestic, regional, and international uncertainties. Indeed, the biggest contributors to the third-quarter growth were the manufacturing (0.8 percentage point), financial (0.5 percentage point), and transport sectors (0.4 percentage point).

The expected higher GDP growth seems to be consistent with Standard & Poor's (S&P) upgrade of the country's economic outlook. South Africa's long term foreign currency debt ratings were also reaffirmed, based on the country's consistently sound macroeconomic policies and the declining debt burden, S&P also expects that a continuation of sound fiscal and monetary policies, together with growth – enhancing fiscal reforms, will lead to further rating improvements in coming years.

Even before the improvement in the rating, the South African currency had made a relatively strong comeback on international markets, from its peak of 13.85/US Dollar in December 2002 to below 9.00/US Dollar since November 2002. The strengthening of the Rand was largely a result of South African exporters repatriating export earnings in accordance with government foreign exchange regulations, the weak performance of the US dollar, as well as a more positive sentiment towards the South African bonds market. There are indications that the South African GDP growth for 2002 will average about 3.0%, up from the previous estimate of 2.5 %. This is projected to improve to 3.3% during 2003. On the other hand, inflation (CPIX) is expected to decline from an expected double-digit figure of around 11 % in 2002 to an average 7.5 % during 2003.

5.12 SADC Economies

In the face of a slow global economic recovery, GDP growth in SADC has held up surprisingly well with forecasts of above 3 % in 2002 and 2003 from 2.5 % in 2001. The positive growth in SADC is supported by improved macro-economic policies, fewer military conflicts and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative for some SADC economies commodities (especially coffee, cotton, and metals such as gold) have also recovered and are expected to continue doing so in 2003. There are SADC economies such as Mozambique and Angola, which are estimated to have high growth rates of around 8% in 2002 and are poised to maintain a higher economic growth in the near future.

There are still serious problems however such as the spreading impact of the drought and the resulting sharp decline in agricultural output of a number of the SADC economies, the HIV/Aids pandemic, which affects the level of productivity and the presence of political instability in some SADC countries. Other SADC economies such as Namibia and Mauritius were afflicted by oceanic and cyclone conditions in 2002.

Despite the gains made in establishing macro-economic stability in the SADC economies, there is still a need to address the above problems and improve the overall environment for investment and growth. As conveyed in the New Partnership for Africa's Development (NEPAD), it is crucial for African economies to record positive and sustainable real growth of around 7% to support and facilitate political and economic transformation. The region will also have to make itself more competitive by bringing down inflation, improve its external balance, reduce external debt and, improve savings and investment ratios as well as fiscal discipline.

Downward risks compromise 2003 economic growth prospects, including the persistence of subdued and volatile stock market prices in US and Europe; the oil price increases due to the imminent War in Iraq and its concomitant effect on inflation, as well as the increased risk in emerging markets. Particularly Argentina and Turkey. Oil prices spiked to more than US\$40 a barrel when Iraq invaded Kuwait in 1990, fell to US\$30 before Desert Storm began its military attack and down to US\$20 after the US-led war against Iraq ended. The increase in the oil price is predicted to be more severe since the world economy is in a recovery phase rather than a normal economic cycle during that period.

5.14 Prerequisites for Services Sector Development

For the services sector to develop and reach its full potential, certain conditions need to be met. These include among others, a system for creating quality factors of production, a competitive domestic market as well as effective and efficient information channels.

5.14.1 Infrastructure and Human Capital

Services provision tends to require relatively less natural capital and more human capital than producing agricultural and industrial goods as indicated in mail survey conducted. That is, progress in service provision usually leads to the substitution of capital by skilled manpower, whilst in goods production there usually is a substitution of labour by capital. Thus, service provision tends to be skills intensive, and its progress depends on the availability of human capital.

Service provision, such as in tourism and business finance, is also more dependent on the level of sophistication of infrastructure, like transport and telecommunication. Thus, there tend to be inter-independence between the sub-sectors in the service sector. Air and road transportation is vital for the expansion of tourism services, as well as for financial services and business expansion as indicated in the survey. Particularly important for tourists is the turn-around time, which is dependent on the frequency of regular passenger flights to and from the country's airports. This means that any effort to secure growth in one sub-sector must have a complementary support from developments in other sub-sectors.

5.14.2 Macro-Economic Policy Framework

Inflation rate, current account balance and the fiscal balance are major macroeconomic indicators of critical importance to the growth and stability of the service sector, in particular financial services and tourism. Unfavourable macro shocks normally lead to the curtailment of private expenditure on services, given that the income-elasticity of demands for services are generally higher than those for goods. Hence, maintaining macro-stability is a key condition for the growth of the service sector of any economy. This precondition is supported by Namibia's membership of the Common Monetary Area (CMA), which has resulted in lower and stable prices since Independence when compared to pre independence period.

Inflation started off with relatively low at 8.9 % during 2002. The combined effect of domestic and imported inflationary pressure, resulted in this acceleration of the inflation rate to a double-digit figure of 10.3 % during April. This trend has been maintained since then, reaching 13.7 % during November, the highest figure recorded since 1998. This led to an average rate of 11.3 % for 2002, outstripping the average annual inflation rate of 9.3 % for Namibia in 2001.

5.15 Current Policy Reform and Other Initiatives

In respect of providing a favourable environment for innovation-driven growth, there has been little government action in Namibia. In tourism, for example, the main policy concerns have been the dangers posed to the environment, lack of service orientation of existing state agencies responsible for the sector. The Namibia Wildlife Resorts Company was incorporated in 1998 to take over and operate government-owned resorts in Namibia, and to improve the tourism products.

In financial services a number of measures have been taken in line with developments in other parts of the world. A major initiative towards enhancing the contribution of the financial sector to the growth of the economy is the implementation of the National Payment System Reform Project, which is a part of the collaboration of the Bank of Namibia with the Bankers Association of Namibia. The project seeks to enable the Namibian banks to exchange payments electronically, in real-time, amongst one another and between themselves and the Bank of Namibia. In this project, all commercial banks are connected to the Central Real-time Inter-bank Settlement Processor System (CRISP).

Many advantages can be foreseen, notably an improved management of risks and exposures, optimal use of available liquidity, which should improve efficiency in the utilization of financial resources and hence economic growth. The clearing project, involving the development of local ATM's, electronic cheque processing and an electronic fund transfer infrastructure (EFT), would certainly ensure the further diversification of financial service delivery and speed up the payment cycle.

In telecommunications, several communities have been reached with service in the past six years. The analogue backup routes on service in the telecommunication sector have been partly replaced by a digital network. A lack of financial resources has however, left many parts of this vast country unconnected. The Central Government is the sole owner and operator of telecommunication services in the country, although the telecommunications company (Telecom) operates as a commercial entity since independence from government.

5.16 Inflation in Namibia

Food prices have played a predominant role in determining the overall inflation during the year. This component of the consumer price index has risen sharply since the fourth quarter of 2001. The food basket in particular has been influenced by the price of maize and grain products. Contributing to the rise in prices of these products was the sharp depreciation of the Namibia dollar during the fourth quarter of 2001 as well as the drought conditions, which prevailed throughout the region. Another contributing factor to the rising inflationary pressure was the higher international oil prices.

In response to the inflationary pressures witnessed during the year, the Bank of Namibia has decided to tighten its monetary policy stance. As a result, the Bank Rate was increased by 350 basis points from the beginning of the year to reach 12.75% in December. In line with the above development the average prime-lending rate of commercial banks rose from 14.00% to 17.50%.

These levels of interest rates were the highest since 1999. The result was a sharp slowdown in the growth rate of private sector credit. The average annual growth rate of credit to the private sector slowed to 14.9% for the year 2002 as compared to 17.4% during the previous year. The slow down in private sector credit was more noticeable in the category of business credit, which is particularly sensitive to interest rate changes.

On the fiscal front, the revised budget projected a comparatively better budget deficit of the Central Government operations during the current fiscal year. The budget deficit was revised to 3.8 % of GDP compared to 4.3 % in the previous fiscal year. The reduction in the deficit is attributed mainly to a higher than expected revenue in 2002/03. However, the 3.8 % budget deficit to GDP ratio still exceeds the pronounced benchmark of 3.2 % as determined in the current MTEF. Total central government debt is estimated to have increased by about 13.0 % in 2002 as against an increase of 24.3 % in the preceding year. As a ratio of GDP, the total debt is estimated to increase 28.0 % from the 25 % recorded in the previous year.

It should be noted that there was a marginal decline in the foreign debt of the Central Government of about 2.5 % as opposed to the sharp increase of 77.2 % during the previous year. The decline in foreign debt stock resulted mainly from the appreciation of the Namibian dollar versus other currencies.

The surplus on the current account of the balance of payments is estimated to have improved during 2002. This is mainly due to the better export performance of primary sector commodities, especially diamonds, other minerals and food and live animals, which were supported by a higher investment income. On the other hand, the deficit on the capital and financial account is estimated to have increased further during 2002 as a result of an increased net outflows of portfolio and other long-term investments, while foreign direct investment in Namibia decreased substantially during 2002. The sharp decrease of foreign direct investment in Namibia was mainly due to decreased equity capital and retained earnings.

It should be noted that the economic fundamentals of Namibia remained sound in 2002. Inflation may have peaked during the fourth, quarter of 2002 but is expected to decline during 2003. Furthermore, growth prospects for 2003 look positive as a result of an increased recovery of the primary sector, especially in mining, as a new zinc mine will become fully operational during the year.

5.17 Challenges of Economic Diversification

At independence in 1990, the new Government inherited an economy characterized by a narrow industrial base and heavy dependence on the production and export of primary commodities (minerals, fish, and beef). It has been argued that this structural characteristic of the economy is not conducive to growth and poverty reduction, which among other needs, are twin priorities of the Government. In particular, continued dependence on the production and export of primary commodities, which are subject to price fluctuations in world markets, would not place the country on the substance path of development in terms of increased income, employment and growth.

To overcome this structural weakness of the economy, the Government has committed itself to pursue a strategy and programme of economic diversification aimed at focusing policy attention on the creation of more dynamic and vibrant industrial and service sectors. This strategy calls for increased manufacturing activities and value addition to locally produced raw materials. These objectives are outline in both the first and second National Development Plans (NDPI&2), which are designed to guide the country's development strategy.

There is no doubt that diversified industrial and processed goods offer the greatest potential for employment creation, improvement in the country's terms of trade, and growth of the economy.

This research topic was therefore chosen due to the importance and priority attached to economic diversification as a strategy for FDI, economic growth, development and poverty reduction in Namibia. The primary objective is to review and assess the extent to which the Namibia has been able to diversity its economy over the past 12 years after independence in 1990.

The previous section has shown that the structure of the Namibian economy has hardly changed since Independence. It has further shown that the services sector has started to assume a prominent role in the economic structure since the latter half of the 1990's.

Its contribution to GDP increased moderately from 28.0% during the period 1990-1995 to 33.7% during the period 1996-2000. The contribution of manufacturing, on the other hand, has been minimal. Simultaneously, efforts to promote diversification, through manufacturing, appear not to have borne the desired fruits. The contribution of this sector to GDP decreased from 13.2 % during the period 1990-95 to only 9.9% during the period 1996-2000.

Given, the prominence of the services sector in the Namibian economy, the question that arises is why the country does not pay more attention to the services sector in its quest for diversification?

The aim of this analysis, therefore, is to assess whether the services sector in Namibia indeed has the potential to lead the countries diversification efforts of the country.

Path to Diversification

5.17.1 The Services Sector in Namibia

In the absence of a conceptual agreement on the precise definition of 'services' as distinct from 'goods', it is common among researchers and policy makers all over the world, to look at services, and hence the services sector, in terms of groups of economic activities that are generally intangible, invisible and non-storable. In the case of Namibia three distinct groups gain prominence, viz., (1) tourism and travel; (2) telecommunications, and information; and (3) financial services, including insurance. Together, these three sub-sectors account for one third of the non-governmental services' GDP. Each of these three sub-sectors is considered in more detail below. It may also be mentioned that another key reason for focusing on these three sub-sectors is the fact that they are dynamic in terms of growth and linkages with other sectors of the economy. Usually they have the highest income-elasticity of demand in any market economy.

5.17.2 Tourism Sector

The tourism sector is the third largest foreign exchange earner, after mining and fisheries, and is quite a significant provider of employment in the economy. A study done on South Africa indicates that about eight tourists could create the permanent job, implying the higher labour intensity of the tourism sector relative to other sectors such as mining. In terms of tourist accommodation, Namibia has about 5000 guestrooms, which translates into 12,000 beds, with an occupancy rate of 40%. Hence, this capacity is greatly under-utilized.

According to the UNDP Human Development Report of 1996, Namibia's tourism sector has a great deal of untapped potential. This is the result of a combination of a low population, combined with spectacular landscapes, a peaceful social climate and a relatively developed infrastructure, which offers attractions for up-market, high-value and low volume niches. The realization of these potentials in the short to medium term will however, depend on how well Namibia can introduce innovations in the packaging and showcasing of her competitive tourist market.

The draft Namibia Tourism Policy lays out a marketing strategy that stresses that tourism development in Namibia will not be based on mass tourism. Instead the policy advises finding an exploiting specialist niche markets. International promotion of tourism will be aimed at low volume, high yield customers who will promote Namibia with much needed foreign exchange. According to the Ministry of Environment and Tourism, about 80,0% of Namibia's tourists originate from the SADC region. South Africa is Namibia biggest tourism market. In view of the importance of this market, the Ministry of Environment and Tourism has established promotional offices for tourism in Johannesburg and Cape Town.

5.17.3 Importance of Diversification

Countries that have specialized in a narrow range of primary commodities suffered most from declining export earnings, volatile commodity prices and a loss in their share international export markets. On the other hand, countries that have spread the risk of economy and sources of foreign exchange earnings, are relatively less affected by erratic swings in the international prices of primary commodities.

In the newly industrialized countries (NICs) the postcolonial governments have deemed diversification necessary to reduce their dependence upon and vulnerability to external markets for their generally limited range of primary commodity exports. Diversification has involved either greater domestic or external, / foreign orientation.

This has led to new production, especially for export, which has been encouraged by new discoveries, market conditions, technologies and lower transport costs.

However, while diversification may well have been facilitated by such new circumstances, most diversifications would not have taken place without government initiatives and encouragement. Thus, usually been crucial for crop diversification, while government geological or mineral surveys and exploration have often led to new mining activities. Similarly, government subsidies, protection, incentives and other support measures have encouraged agricultural diversification, as well as both import-substituting and export –orientated industrialization NICs.

From the above analysis, it is clear that a more diversified economy would be better off than an economy, which was largely dependent on a few sectors. In view of this fact, efforts that are currently being undertaken to diversify the Namibian economy should be continued and strengthened further. The need to diversify the Namibian economy is underscored by the present structure of the country's economy, which relies, to a significant extent, on primary industries in terms of production and export. For the period under review the primary sector has accounted for about 21 % of GDP and mineral exports accounted for 55 % of the total exports.

5.18 Key challenges for Diversification

Having outlined the importance of economic diversification, this section outlines the key challenges that the government and other stakeholders need to tackle in order to realize the objectives of diversification. These challenges include access of trade finance, skilled labour, trade barriers in foreign markets and the transfer of technology.

5.18.1 Trade Finance

Lack of access to trade finance is one of the primary constraints inhibiting the development of new industries in Namibia. Many firms especially the emerging ones have limited access to finance due mainly to the fact that they do not have the necessary collateral or track credit records. The end result is that these firms find it very difficult to market successfully and sell their products on foreign markets.

Although trade finance is a matter that needs to be left to the private sector, the Government has a major role to play in promoting access to trade finance, especially for smaller firms. In particular, there is a need to establish a scheme, which is specifically meant to cater for the special needs of exporters – the export credit guarantee scheme. There is evidence that such schemes have successfully facilitated and encouraged exports, especially non-traditional ones in many developing countries such as Malaysia and South Korea. In this regard, it is strongly recommended that Namibia should seriously consider establishing a similar scheme.

5.18.2 Market Intelligence

Another factor constraining the development of existing and new industries is the inadequacy of market information, especially for small and medium enterprises, as indicated by the Namibian Chamber of Commerce, the primary reason for the undertaking of this research project. This includes businesses not having enough information on the potential markets for their products, not knowing where to source inputs and not knowing who their competitors are or/and would be.

To overcome this problem, many governments, including that of Namibia, use their diplomatic missions to gather and supply market intelligence information to existing and prospective businesses in their home countries. Some others have established marketing boards of special agencies, with offices in countries of prime interests, to supply market intelligence information. With market information available, existing and potential businesses could flourish and consequently diversification would take place.

5.18.3 Skilled Labour – Which skills for the future?

The globalization of economic activities and rapid advances in information technology are making important changes in the structure of industry, the way work is organized and the knowledge and skills required by workforce. Evidence and other data collected in the questionnaire (See Appendices) has shown that the workers' level of skills and training is the key factors influencing productivity and growth. The implication is that the success of any economy, including that of Namibia greatly, depends, on the quality and skills of its labour force.

Skills development leads to lower costs, higher product reliability, more innovation, and more efficient product design cycles. In other words, any economic success increasingly depends on the quality of its human resources in terms of what people know and can do, their creativity, their ability to adjust to change and to innovation. Furthermore, skills development and training not only make it easier for workers to move into a new industry, but most importantly it enhances the country's international competitiveness.

Presently, a significant number of Namibians do not have academic qualifications beyond primary school as indicated by data derived from the mail survey (questionnaire). Therefore, Namibia needs to undertake a concerted effort to develop a well- balanced, skilled, and knowledgeable labour force. The key objective would be to develop both sound vocationally specific skills and broadly based generic skills. In the modern economy, employers are increasingly looking for a broader range of skills, both technical and generic, and people will need to be able to work in an increasingly volatile labour market. Skills development priorities should support the economic and social objectives identified by the Government.

In addition, scientific and technological developments are increasingly recognized as the most important defining factors for economic growth and poverty reduction. It is therefore imperative that strategic and deliberate investments in science and technology should be made. Namibia should rely less on its natural resources and more on knowledge, entrepreneurship and innovation in order to be competitive and prosper in an increasingly globalized economy.

5.18.4 Limited Domestic Market Size

One of the main challenges for economic diversification facing Namibia is its market size. Given the limited domestic market, it is very difficult for producers to diversify their production and also to realize sizeable economies. Furthermore, the smallness of the economy can be a constraining factor for the attraction of FDI as indicated by the mail survey respondents. In this regard, regionally integrated markets are crucial for Namibia and other small economies. This is because regionally integrated markets offer viable options in terms of increased intra-regional trade and the creation of wider economic spaces where local and foreign investors can produce for both regional and international markets.

Moves towards greater regional integration that involves more than one country will, thus improve Namibia's market access. In this regard, Namibia's membership of SACU, SADC and the COMESA represents a strategic response to the increased demand for market enlargement for its exports. Namibia could therefore benefit from the acceleration process of tariff reductions and removal of non-tariff barriers especially in SADC.

5.18.5 Technology Transfer

Access to technology and information is another challenge, which needs to be addressed for industrialization and diversification to take place. CEOs interviewed by the researcher responded that in some sectors, such as subsistence agriculture knowledge and access to available technology is low, despite the availability of low cost, low cost, less-sophisticated technology and know how are available on the international markets.

It has to be noted that the Government has already addressed these issues through its strategy on SME's development. In this regard, a structured process of technology transfer with the following features has been proposed. The first part involves the identification of different types of appropriate technology required of suppliers as well as the absorption and replication potential of such technologies. The second part of this strategy is the establishment of Appropriate Technology Demonstration Centres (ATDC) and vendor development programmes. An associated initiative is the strategy of setting joint ventures (partnerships) between foreign and Namibian firms in the expectation that this will lead to technology transfers. It is hoped that such initiative will go a long way in addressing the problem of access to technology.

5.18.6 Market Access / Trade Barriers

Namibian export products enjoy preferential access to a number of markets regionally and internationally. On the regional front, through SACU, Namibian exports enjoy duty free access to the larger South African market as well as to other SACU partners, namely Botswana, Lesotho and Swaziland. Namibia is also a member of SADC, SADC has a large market of more than 190 million people and a GDP of about USD 176 billion. This implies about USD\$900 GDP per capita. Although this figure is relatively low by international standards, it still represents a healthy purchasing power in terms of Sub-Saharan Africa.

On the international level, Namibian exports enjoy preferential market access to the EU through the Cotonou Agreement, this successor agreement to the Lomé Convention. It is important to point out that some of Namibian exports are subject to import quotas and other trade distorting measures such as domestic support (subsidies), which are provided to domestic producers on export markets. Such protectionist measures severely affect the volume of products that can be exported. For example, under the Lomé Convention, the 900 tons of grapes that are allowed duty-free entry into the European Union from all ACP countries are all taken up by Namibia. Another scheme under which Namibian export products enjoy duty free market access, is the Generalised System of Preferences (GSP) maintained by individual OECD countries as well the newly established African Growth and Opportunity Act (AGOA) by the USA.

Despite these market access arrangements and a significant reduction in tariffs within the framework of the Uruguay Round and consequently the WTO liberalization programme, exporters are still faced with massive non-trade barriers especially in the agriculture sector.

Export subsidies and domestic support provided to farmers in developed countries remain some of the biggest constraints in the diversification of agricultural production and trade in developing countries including Namibia. Such subsidies especially those provided within the context of the Common Agricultural Policy (CAP) not only distort markets but most importantly, they disadvantage non-domestic producers including those of Namibia. Furthermore, the imposition of quotas and tariff escalations on export markets do not augur well for Namibia's exports. They are essentially designed to keep out products of exports interest from developing countries including those from Namibia.

5.19 Government Programmes for Diversification

Recognising the importance of economic development and diversification, the Namibian Government has put in place a number of initiatives to promote diversification and industrialization. These initiatives and programmes are briefly outlined below.

5.19.1 SME Policy and Industrial Strategy.

In recognition of the critical role SMEs can play in the socio-economic development of the country and economic development of the country and economic diversification, the Government has put in place policies and programmes for the development of SMEs. The main thrust is to increase the rate of growth of existing businesses to ensure the employment of more people. The second thrust is the reduction of business failures while increasing the development of new business formations. The third thrust is the diversification of the activities of the sector includes continuing efforts to improve and empowering environment, including pro-active programme and institutional support. More specifically, the assistance programmes for SMEs target the critical areas of access to finance, skills development, marketing, technology transfe., management and institutional support.

Such a comprehensive policy framework is expected to enhance the economic role of SMEs not only in terms of their contribution to employment and poverty reduction, but also in terms of contribution to economic diversification. The development and promotion of the SME sector is an integral part of the Special Industrialisation Programme (SIP), which is designed to render practical support to viable business ideas and plans. The long-term objective of this programme is to promote export-oriented production and where appropriate import substitution.

In addition, the Government is currently drafting a comprehensive industrial development policy to guide and facilitate the process of industrialization, development and diversification. Various industrial parks as well as incubator centers have been established throughout the country for use by the SMEs. Other support programmes for SMEs include the establishment of group purchase schemes, the objective which, is to bring together small business and enable them to purchase in bulk as well to share expenses such as transport cost. These programmes are expected to lead to the development of the SMEs and informal enterprises and regarded as channels to job creation and the economic empowerment of formerly disadvantaged Namibians.

5.19.2 Financing Programmes for SMEs

The assistance programme also addresses the access to finance for SMEs. Namibia has a relatively well-developed and sophisticated financial system that caters mainly for the formal business sector, while a significant number SMEs only have a limited access to financial services. The end result as the questionnaire pointed out is that emerging firms and SMEs find themselves in a situation where they are unable to finance their operations adequately or further expand their business. This situation has led to minimal employment creation, low salaries and a less diversified economy.

In addressing this situation, the Government is taking concerted action aimed at enhancing the private sector, especially the SME sector, to provide access to finance. One of these actions is the streamlining and consolidation of state owned development –financing institutions, namely the NDC and the DFN into a Development Bank. If professionally managed, the Development Bank will play an important role in development lending to the private sector (including lending to the SME sector).

The Government has also put in place a credit guarantee scheme, which provides a government guarantee for SME loans. Several million dollars have already been spent on this initiative. Other financing facilities available to the private sector include the Private Sector Global Loan facility of the EIB and the Indian. Export and import Bank Equipment fund as well as a similar fund made available by the Spanish Government.

In addition to these programmes, it is recommended that the Government should consider establishing a venture capital fund as well and capital fund to supplement the above programmes and enable SMEs access to both loans and equity.

5.20 Export Processing Zone (EPZ) and Special Incentives

The EPZ regime was established in 1996, has been the main incentives scheme aimed at encouraging foreign direct investments in Namibia. The main goal of the EPZ regime is the promotion of investment and employment in an export-orientated manufacturing industry. An added goal is the transfer of technology and know-how to the remainder of the economy. The Namibian government has stressed that EPZ's are not fenced in industrial estates, but are part of an integrated national industrial development strategy. This strategy primarily seeks to attract foreign investors to Namibia with a view to developing export-orientated industries.

EPZ companies are exempted from duties on input, provided that all their produce is exported to markets outside the SACU. Other incentives include rebates for training and marketing on foreign markets, and exemptions from corporate income tax. Furthermore, a number of EPZ industrial parks have been constructed at Northern Oshikango and Walvisbay to attract and encourage companies to operate and export from these zones.

By the end of 2002, some 20 companies were fully operational in the EPZ regime. These companies invested N\$ 3.6 billion by the end of 2002. Furthermore, EPZ companies have created 9543 direct job opportunities.

In addition to the EPZ regime, the government has also formulated special incentives for manufacturers and exporters. These incentives include 50% abatement on taxable income derived from manufacturing for five years, tax packages for companies wishing to relocate to Namibia, export promotion allowance as well as a special building allowance for manufacturing purposes.

5.20.1 International Trade Policy Strategy

Trade policy plays a critical role in the diversification of the country's economy. In Namibia, the trade strategy revolves around the promotion of investment and trade; export growth and promotion of regional integration arrangements as well as further trade liberalization. Regional integration schemes underpin the country's trade policy. As indicated earlier, Namibia is a member to SACU, SADC and COMESA. Namibia's trade policy is essentially shaped by the country's membership of SACU. The trade policy within SACU has evolved from being protectionist to a more open regime today.

These regional trade arrangements are crucial for small economies like Namibia. This is because regionally integrated economies provide enlarged markets for domestic products, resulting in the realization of the economies of scale and attraction to local and foreign investors. Membership in regional trade organizations provides an opportunity to Namibia to diversify its exports toward central and Eastern African markets through better market access. Namibia traditionally has traded with its SACU partners, with a trade imbalance heavily favouring South Africa. Therefore, the membership of SADC and COMESA is an attempt to diversify import and export markets.

This strategy also makes Namibia's investment promotion strategies such as EPZ regime viable. Due to the small size of its market, any viable investment promotion should be based on its membership of SACU, SADC and COMESA as these three regional integration groups provide a combined market of about 350 million people. In this way an export-led growth could be achieved.

As indicated earlier, Namibia along with its SACU Partners has committed itself to trade liberalization. The commitment to the WTO liberalization programme in particular and the implementation of the Trade, Development and Co-operation Agreement between south Africa and the European Union, will further lead to an increased liberal trade. Such a trade liberalization strategy is regarded as a growth-enhancing factor for a country or region. There is empirical evidence that show that liberalized economies tend to attract more investments compared to closed economies.

5.21 Namibian Post- Independence Economy (1990-2001)

The Namibian Economy is characterized by a production structure ranging from traditional subsistence agriculture to a technologically advanced modern sector, especially in the financial and telecommunications sectors. The economy is very open, heavily dependent on primary commodities, with a small manufacturing base. Before Independence the emphasis had been on primary production for export, while the bulk of processed goods required for the domestic market were imported from South Africa. Since Independence, the Namibian Government has taken initiatives towards consolidating and reviving the sectors of the economy that performed poorly during the pre-independence era. The Government strategy in this regard was directed towards the diversification of the economy, with particular emphasis on the manufacturing and the agricultural sectors.

This research has attempted to review the progress made to diversity the Namibian economy since Independence. It has found that despite a number of initiatives and policy measures put in place by the Government of Namibia to diversify the economy, this has not yet shown the desired sectoral shift. Since Independence, there has not been a substantial shift in the production structure of the Namibian economy. The structure of the country is still dominated by primary sector commodities such as agriculture, mining and fishing. Similarly, secondary sector commodities such as fish and meat processing are heavily linked to the primary sector.

It should be noted that the share of manufactured products to the total GDP has shown a marginal decline since Independence. This suggests that measures put in place to promote this sector have not achieved the desired results. Nonetheless, some interesting developments in terms of diversification have been observed in the agricultural sector. These include the development and export of horticultural products, such as table grapes, dates and cotton. Recent investments in the textile sector might lead to an expansion of the manufacturing sector in years to come. There is nevertheless, a need to intensify efforts to promote diversification.

Some interesting developments were observed in the financial sector. This sector has undergone a significant structural change during the 1990's both in terms of financial deepening and financial widening. Whereas the Namibian financial system was dominated by a strong banking sector in the early 90's, a situation has emerged where non-banking financial institutions, notably pension funds, insurance corporations and unit trusts have gained in prominence during the later half of 90's. There has however, been no significant change in the composition of the assets of commercial banks. Lending to individuals has dominated credit facilities exclusively during the period under review, in contrast to the experience of some dynamic developing countries, such as Mauritius and Singapore.

5.21.1 The Real Economy

Despite the slow recovery of the world economy in 2002, the performance of the Namibian economy has been satisfactory. Real GDP is estimated not to be significantly different from the rate recorded in 2001. Available data shows that growth in 2002 was driven largely by a rebound in the primary sector, evidenced by the good performance of two sub-sectors, viz, agriculture and mining. Both the secondary and tertiary sectors also performed positively, though at a slower pace, than during 2001.

5.21.2 Gross National Income and Gross National Disposable Income

The analysis of this section is based on 2001 data because the data for 2002 is not yet available.

Unlike the Gross Domestic Product (GDP), which is a production concept, the Gross National Income (GNI) and Gross National Disposable Income (GNDI) are income concepts, which measure various aspects of the total income received by residents of GNI is the total income received by residents of Namibia irrespective of the location of the activity from which the income is derived, while GNDI measures the disposable income after transfers and taxes have been accounted for.

In 2001, GNA stood at N\$27.5 billion compared to N\$24.2 billion in 2000 while GNDI stood at N\$30.5 billion in 2001 compared to N\$27.2 billion in 2000 at current market prices. GDP amounted to N\$ 27.2 billion in 2001 compared to N\$23.9 billion in the preceding year. The above figures show that both GNI and GNDI were greater than GDP in 2001 and this has been the trend since the 1990s as a result of large transfers from the SACU pool. SACU transfers stood at N\$2.7 billion in 2001. Real GNI recorded a growth rate of 5.7 % in 2001, 2 % points higher than the 3.6 % in 2000, 2 % points higher than the 3.6 % recorded in the preceding year. Real GNDI also increased, though more slowly, by only 12.0 % in the same year compared to 18.0 % in 2000.

Real GDP per capita, a measure used to indicate the standard of living for the population, declined slightly to N\$8,000 in 2001 from N\$8,1000 recorded during the previous year. On the other hand, real GNI per capita increased, though only slightly, by 2.4 % to N\$ 8,832 in 2001 from N\$8,622 in 2000. This level of per capita income ranks among the highest in Sub-Saharan Africa and hence Namibia is classified as one of the middle-income countries.

5.21.3 Namibian Income Distribution

Namibia's income distribution is however, very skewed as indicated by data collected in mail survey and reflected in a Gini coefficient for an income of 0.7, which is one of the highest in the world. This shows that the richest 10% of the population receive 65% of the total income while 90% of the population share the remaining 35% of the total income. This indicates that the inequality in the distribution of income in Namibia is widely spread indicating the poverty level. As a result, the per capita income measure might not be a good measure of the standard of living of the majority of Namibians.

The challenge for policy in Namibia is therefore to develop vigorous measures aimed at reducing this high level of inequality. These measures will include enhancing access to natural resources such as land, consolidating the gains made in improving access to and the quality of the education, health and housing services as well as creating employment opportunities for the majority of Namibians.

The growth of the Namibian economy for 2002 appears marginally better than the rate registered for the previous year. This level of growth however, remains too low to make a dent on the high level of unemployment and unskilled labour in the country and consequently would not address the prevailing income inequality highlighted above as indicated in the mail survey. In this regard, efforts geared towards raising the rate of economic growth to a level of 5 % and above per year, for a sustained period, should continue and should be strengthened wherever possible.

5.21.4 Savings and Investment Balance

The balance between domestic saving and investment reflects the foreign saving position of the country. Thus excess saving will lead to lending to other countries reflected in the outflow of capital while the deficiency in the national saving would lead to an import of capital through foreign borrowing. Namibia has generally experienced a position of excess saving over investment, which has been reflected by consistent surpluses in the current account of the country's balance of payments. The same situation is observed to have prevailed during 2001.

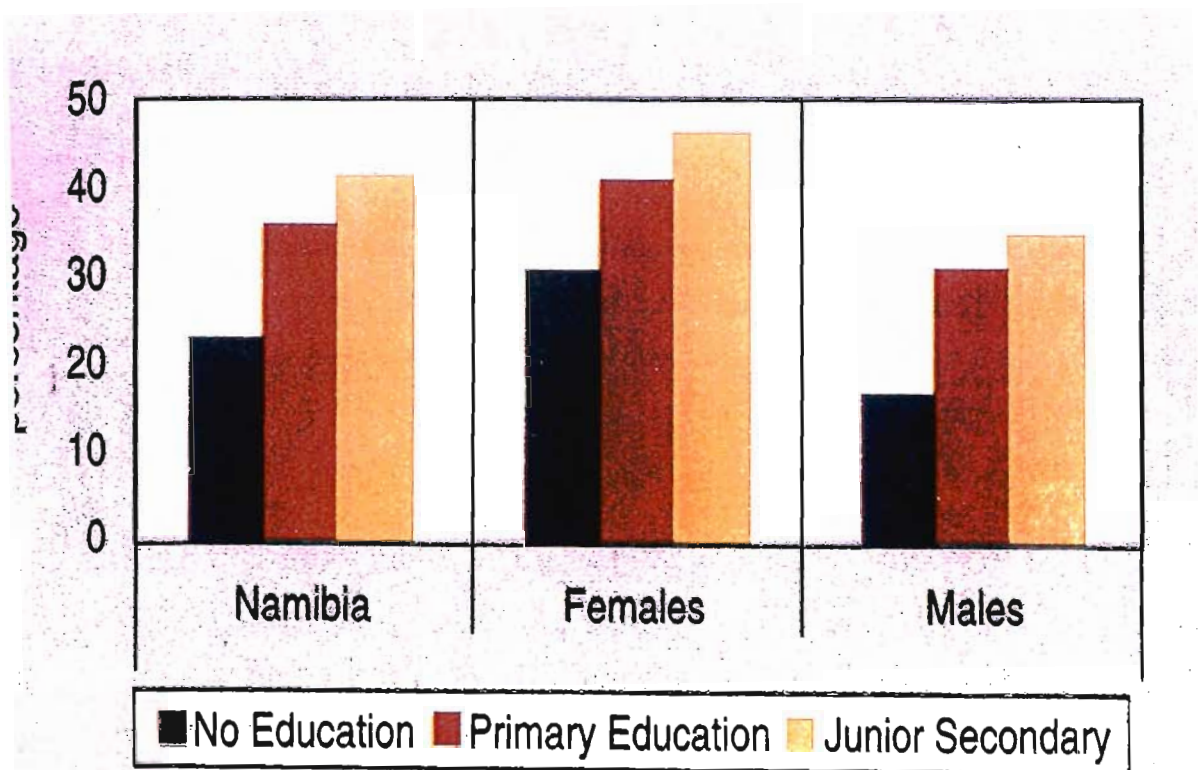
The savings to GDP ratios declined from 25.9% in 2000 to 23.6% in 2001, evidently reflecting the slower increase in GNDI relative to consumption. The gross national disposable income increased by approximately 12% in 2001, while the final consumption expenditure rose by approximately 155 during the same period.. As a result, the ratio of the latter to GNDI increased to 70% in 2001 from 77% in 2000.

Gross investment also expanded in 2001, amounting to N\$6.0 billion from a position of only N\$4.5 billion in 2000. This was a reflection of the major investments in the country during that year mainly by the new Zinc mine and the new Ramatex Textile factory. The result was a gap of N\$ 390 million excess saving compared to N\$ 1.8 billion in the previous year, reflecting a outflow of savings. This means Namibia continues to be a net exporter of capital, which is typical of a developing country. Namibia cannot afford this situation to continue, as the country desperately needs investments to enhance economic growth to higher and sustainable levels. There is therefore a need to establish effective measures to encourage the investment of these savings within the country.

5.21.5 Employment Situation

The employment and unemployment picture in the country remains unclear due to the non-availability of data. The most recent data available on the state of employment in the country is the 1997 Namibia Labour Force Survey complimented by the 2000 Labour Force Survey estimating the size of the Namibian Labour Force at 700 000. The rate of unemployment is estimated to be 33.8% if defined broadly, and is slightly lower than the rate of 34.5% recorded in 1997. If unemployment is defined by strict criteria, the rate would have gone up slightly by 0.8% from 19.4% in 1997 to 20.2% in 2000. The unemployment in the country is characterized by variations between urban and rural environment, with a clear bias based on gender and educational levels (Chart 5.5)

Chart 5.5 **Unemployment by Gender and Education**



Source: National Labour Survey Estimates: 2000

5.22 External Debt

According to the IMF rule of thumb, Namibia is classified as a less-indebted country since the ratio of external debt stock to GDP and the ratio of the external debt service to exports of goods and services are well below the 40.0% and 25% criteria respectively.

The total outstanding debt for Namibia is estimated to have increased from N\$5.0 billion at the end of 2001 by 7.5% to N\$5.4 billion by the end of 2002. This small growth on total debt during 2002 has been caused by a modest increase in foreign debt stock, which was supported by the appreciation of the Namibian dollar against the US dollar, Euro and British pound in which loans were contracted. This resulted in a total external debt to the nominal GDP declining from 18.4% at the end of 2001 to 17.8% at the end of 2002 (Table 4.8). In terms of composition, parastatals took up major share of external debt, accounting for 49.5%. This was followed by the Central Government (27.5%) and the private sector (23.1%).

Namibia's external debt service also increased by 6.1% to N\$365.9 million at the end of 2001. The debt service ratio to GDP, which measures the ability to service debt obligations (repayments of principal and interest payments), declined marginally from 1.4% at the end of 2001 to 1.3% at the end of 2002, because the nominal GDP was greater than the increase in foreign debt service. Similarly the ratio of total foreign debt service to the total export earnings fell from 3.7% at the end of 2001 to 3.2% at the end of 2002 as the total export earnings grew faster than the total foreign debt service.

5.23 International Investment Position

The increase in Namibia's foreign assets in 2001 was mainly reflected in a substantial increase in the value of portfolio investment during the period under analysis. (Table 4.9). During 2001, portfolio investments increased substantially by 48.3% (or N\$2.5 billion) to N\$7.6 billion from the N\$5.1 billion recorded in 2000. Reserve assets, which increased by 35.9% from N\$2.0 billion recorded in 2000 to N\$2.7 billion in 2001 also contributed to the increase in the Namibian foreign assets during the year under review.

The rise in the country's foreign liabilities during 2001 was mainly due to commercial banks, which increased their foreign liabilities by 81.1% to N\$961.7 million, from the level of N\$530.9 at the end of 2000. Also contributing to the rise in foreign liabilities of the country was the increased participation of the non-residents in the Namibian Bond market. This led to portfolio investment in Namibia by non-residents to increase from N\$219.5 million in 2000 to N\$ 329.8 million recorded in 2001 an increase of 50.3%.

5.24 Exchange Rate Development

The Namibian Dollar is linked or equivalent to the South African Rand and is therefore used interchangeably in Namibia, but not in South Africa. Developments in the South African Rand are therefore fully reflected in the movements of the Namibian Dollar. Responding sharply on the developments on the global front, the Namibian Dollar experienced a marked appreciation against the world's major currencies in 2002. Most notable was the appreciation of the Namibian Dollar against the US Dollar, reflecting the economic difficulties faced by the world's largest economy. On the other hand, the appreciation against the Euro was less significant. There seems to have been a complete reversal in the exchange rate developments in 2002 when compared to the previous year. Whereas the Namibian Dollar was branded as the worst performance currency after the Turkish Lira in 2001, it became the world's best performing currency in 2002.

After depreciating by about 40% as against the US Dollar and by 35% against a basket of currencies in 2001, the Rand/Dollar bounced back and appreciated by 20% as against a basket of currencies and by 11% against the US Dollar from January-December in 2002. The pattern of appreciation was more or less the same as against other currencies such as the British Pound and the Euro, though in different magnitudes. Against the British Pound the Namibian Dollar appreciated by 3.3% over 2002, while the appreciation against the Euro over the course of the year with the highest appreciation of 5.5% occurring during the month of May while the highest depreciation of 3.9% occurred during the month of June. The appreciation of the Namibian Dollar is attributed factors including better perceptions about emerging markets and the general weakness of the US Dollar. Also contributing to the strengthening of the Rand and hence the Namibian Dollar during 2002 was a better export performance, which led to increased inflows of foreign exchange earnings into the South African economy.

5.25 International Economic Issues

The rapid spread of regionalism is surely one of the most important regional developments in the global trading system. Nearly every country worldwide is in or is discussing, a regional integration arrangement. In Southern Africa there is a number of regional integration arrangements, namely SADC, COMESA, SACU, and CMA to which Namibia belongs. Namibia's membership in these groupings underlines the great importance, which the country attaches to the objectives of regional integration. In particular regional integration serves as a useful framework for political and economic cooperation and as a strategy for creating a wider economic space, which is necessary for increased foreign investment and growth. An integrated region offers producers and manufacturers of exportable products and extended market for their goods as well as an opportunity enabling them to maximize economies of scale. Furthermore regional integration enhances the efficient allocation of resources and fosters an overall economic efficiency by promoting competition.

5.25.1 Southern African Customs Union (SACU): New Agreement

With specific reference to SACU, the most enduring and deepest integration arrangement in Africa, a significant development has been the signing of the new SACU Agreement by the Heads of States and Governments of SACU Countries in October 2002. The signing was the end of the protracted re-negotiation process, which started in 1994 with the objective of not only democratizing the governance of SACU, especially in the role played by South Africa to set external tariffs, but also to put in place new institutional arrangements, a new revenue sharing formula, and industrial and competition policies amongst others.

The new agreement will only become operational once it has been ratified by the Governments of respective member countries. The new agreement provides for a transparent and an equitable participation of all member States in tariff settings; and the facilitation of common industrial development policies and strategies which do not duly disadvantage any Member State.

In terms of the institutional arrangements, the 2002 SACU Agreement provides for the establishment of a Council of Ministers, the Customs Union Commission, Technical Liaison Committees, a Tribunal, and the Tariff Board. A SACU Secretariat has also been established to oversee daily SACU activities. The headquarters of SACU will be located in Windhoek, Namibia.

In respect of the new revenue sharing, the shares accruing to each member, will be derived from three distinct components, namely: a share of the customs pool, a share of the excise pool and a share of the development component. Each country's share of the customs component will be derived from the proportion of the country's intra-SACU imports to the total intra-SACU imports of the Common Customs Area. The excise component for each member state will be calculated from the value of its GDP in a specific year as a percentage of the total SACU GDP in that year, while the development component is to be funded from 15% of the excise component. The details regarding the management of the Revenue Pool are currently being determined. In the meantime South Africa will manage the Common Revenue Pool for a transitional period of two years from the entry into force of the Agreement.

5.25.2 SACU-USA Trade Relations

Another important development within SACU during the year under review was the holding of exploratory talks between the Government of the United States and the SACU Countries aimed at paving the way for a possible launch of negotiations regarding the creation of a joint, free-trade agreement. These discussions are still at an exploratory stage, where both sides are trying to gain a general sense about strategies for proceeding the negotiation process. Unlike the Free Trade Agreement between South Africa and the EU, the negotiation for a possible free-trade Area will involve all of the members of the Customs Union. This is in line with the provision of the new agreement, which stipulates that all trade agreements with third parties should be negotiated at the common SACU level. A free-trade agreement will build on the Africa Growth and Opportunity Act (AGOA) designed to improve access to US markets by African exporters, transforming existing relations from an aid dependency to a mutual trade partnership. AGOA provides Sub-Saharan African countries with increased access to the US market for apparel and textile products and other goods. It also provides for the exploration of free-trade agreements with eligible participating countries.

The proposed free trade agreement with the US would give SACU producers free access to the world's largest market and vice versa. The US trade rivalry with the EU is another reason for the US to begin negotiations with SACU. The reason concerns the free trade agreement between South Africa through which the EU could disadvantage US exporters and might also result in trade diversion between South Africa and the US.

One of the challenges of the negotiations would be the determination of a way to secure an agreement, which would accommodate the wide interests of each SACU country. Another challenge would be an agreement regarding the rules of origins, to ensure that products from third countries would not enjoy the benefits of the free trade agreement. To this effect, a sound administrative system would need to be put in place to prevent illegal transshipment and the use of counterfeit documentation.

US exports to the Customs Union Countries were about US\$3.1 billion in 2001 and the complete , two-way trade between the two participants was approximately US\$7.9 billion. The conclusion of a free trade area between the US and the Customs Union is expected to result in increased trade and foreign investments between the two participant. In a related development, the negotiations for the proposed Free Trade Agreement between member countries of the Southern Common Market in Latin America (MERCOSUR) and SACU are continuing in accordance with the new SACU Agreement.

5.25.3 Southern African Development Community (SADC)

The process of regional economic integration in SADC involves the development and synchronization of a number of strategic programmes and projects aimed at a greater integration of the region. One of the highlights during the period under review is the development of the Regional Indicative Strategic Development Plan (RISDP). This initiative is intended to provide strategic direction to all activities and programmes of SADC for the next ten years. The terms of reference for the RISDP provide the formulation of a plan with the full involvement of all member states.

As a first step in the formulation of RISDP, a background report, which will review current policies and strategic documents such as the SADC protocols and various Memoranda of Understanding, is being prepared.

A major objective of the study is to scrutinize SADC policies, strategies and programmes to align and reorient these towards SADC priorities and objectives. Upon completion, the background study will become the key reference point for the formulation of the RISDP and will thus provide the basis for making recommendations on the appropriate policies and strategies to be implemented, to accelerate the achievement of the SADC objectives. The background study should also facilitate the identification of divergences, synergies and linkages between national development plans and SADC policies.

5.25.4 Committee of Central Bank Governors (CCBG) in SADC

With regard to the regional integration and cooperation on monetary matters, two meetings of the Committee of Central Bank Governors (CCBG) in SADC were held during the period under review. The key highlights of the CCBG activities include the development of a number of Memoranda of Understanding (MOUs) in the area of Payment and Clearing Systems, Exchange Controls, Legal and operational Frameworks of Central Banks in SADC, Information Technology, and Macro-Economic Convergence. In general all MOUs are aimed at facilitating and deepening regional integration and coordination of macro-economic policies. These MOUs would also inform and serve as contributions to the development of a Protocol on Finance and Investment, which is aimed at the harmonization and integration of regional economic policies and strategies.

The development of a Model Central Bank Act for the SADC region would be another milestone. This draft Model Act is aimed at enabling SADC countries to move closer to convergence in the area of central banking.

5.25.5 Trade Protocol

The Protocol on Trade, the implementation of which commenced in 2000, forms a cornerstone of the SADC Treaty. The protocol is essentially a framework document, which lays down the foundations for closer regional economic integration through the elimination of tariff trade barriers in the region, over an eight- year period. At present member states are implementing their tariff liberalization schedules.

5.25.6 African Union (AU)

The African Union was launched in July 2002 in Durban, South Africa. The AU replaced the Organisation of African Unity, which had been in existence since 1963. The objectives of the AU are more comprehensive and differ from those of the OAU.

The objectives of the AU, as stipulated in the Constitutive Act, are inter-alia to:

- Achieve greater unity and solidarity between the African countries and the people of Africa,
- Accelerate the political and socio-economic integration of the continent through the promotion of peace, security, and stability on the continent,
- Promote democratic principals and institutions, popular participation and good governance,
- Establish the necessary conditions, which enable the continent to play its rightful role in the global economy and in international negotiations,
- Promote sustainable development at the economic, social and cultural levels as well as the integration of African economies,
- Coordinate and harmonize the policies between existing and future Regional Economic Communities for the gradual attainment of objectives of the Union.

The launch of the AU signals, in particular, the recognition of the need for greater economic integration in order to avoid the further marginalisation of African countries in the new global economy. The AU provide a framework within which the necessary partnerships between governments, people, businesses and civil societies can be strengthened, to promote the economic and social development of the continent.

The AU makes provision for the establishment of key African Institutions. In the area of economics and finance, a number of institutions are proposed. These are the African Central Bank, the African Monetary Fund, and the African Investment Bank.

5.25.7 New Partnership For African Development (NEPAD)

The recent adoption and launching of NEPAD is considered as one of the most important developments of recent times and will undoubtedly play a major role in helping to achieve the objectives of the AU. This initiative is essentially a development programme, placing Africa at the apex of the global agenda. It represents a vision that reflects the determination of African Leaders to rectify past failures and steer the continent on a path of growth and socio-economic development. The key objectives include the acceleration of the eradication of poverty and inequality in African societies; halting the marginalization of Africa on the globalization process; and accelerating the deepening of regional and continental economic integration. Other important objectives are the creation of a conducive environment and conditions transforming African countries into the preferred destination to both domestic and foreign investors as well as the development of a comprehensive integrated development programme for Africa.

As a strategy towards the achievement of these objectives, a number of key priority areas have been identified. These include political governance, economic and corporate governance, market access, human development, including health, education and poverty eradication., and capital flows, including domestic resources, private flows, ODA and debt reduction.

At the core of the NEPAD process, is its African ownership, which must be retained and strongly promoted, to meet the legitimate aspirations of the African peoples. While the principle of partnership with the rest of the world is equally vital in this process, such partnerships should be based on mutual respect, dignity, shared responsibility and mutual accountability.

NEPAD is structured in three components; the first component provides the pre-conditions for sustainable development, which are Peace, Security, Democracy and Political Governance Initiatives; the Economic and Corporate Governance Initiative; and the sub-regional and regional approaches to development. The second component provides for sectoral priorities, which include the bridging of the infrastructural gap; the Human Resource Development Initiative; Agricultural Initiative; Environmental Initiative; Cultural Initiative and the Science and Technology Platforms. The third component concerns the mobilization of resources, referring to the Capital Flows Initiative and the Market Access Initiative.

It is also important to underscore the fact that NEPAD should not be constructed and come into existence in a vacuum. It is therefore important that it is linked to the existing initiatives and programmes. For example in the case of SADC, the proposed development of the Regional Indicative Strategic Development Plan (RISDP) should take NEPAD into account, and where appropriate, SADC and NEPAD programmes should be harmonized. SADC should also take NEPAD into account in the ongoing review of its programmes. In this way all activities focused on Africa can be pursued in an integrated and coordinated way within the framework of priorities and needs which have been identified.

It is estimated that an annual amount of US\$64 billion will be needed for NEPAD to fulfill its economic vision. Wealthy Nations are expected to contribute a significant percentage of this amount. It remains to be seen whether this will materialize, as wealthy nations are insisting on good governance and sound economic principles in all member states of the AU as a pre-condition for their contribution. The NEPAD Implementation Committee has confirmed that political as well as economic and corporate governance would be included in NEPAD's peer review process, to address this concern.

5.25.8 Common Monetary Area (CMA)

The consultation process within CMA, on monetary and related policy issues are improving. In this regard CMA central bank governors meet on a quarterly basis to exchange views about recent economic developments in their respective countries. These meetings take place shortly before the meeting of the South African Reserve Bank's quarterly Monetary Policy Committee (MPC), and are aimed at assisting with the formulation of monetary policy in the four CMA countries. With this new spirit of consultation, the CMA could evolve into a more unified monetary region and could serve as a springboard to the further integration process of SADC.

5.25.9 Association of Central African Banks (AACB)

The cooperation of the African Central Banks at a continental level is also gathering momentum. The AACB, which has been dormant for some time, has revived its activities with the purpose of enhancing monetary policy coordination among African Central Banks. These programmes are intended to contribute towards the achievement of the goals of the AU, particularly in regard to the integration of the entire continent. During 2002 the Bank also participated in the meeting of the Assembly of Governors of the AACB, which was held in September 2002 in Algiers, Algeria. This meeting was preceded by a symposium on the appropriate macro-economic framework for sustainable development within African integration process. During the meeting, the Assembly of Governors deliberated on a number of issues on which decisions were taken. The Assembly of Governors adopted the programme of monetary cooperation in Africa. This programme defines the successive stages for the establishment of a single monetary zone and a single currency for the continent by 2021. The programme has several macro-economic convergence indicators, which should be met before a single currency is adopted. These indicators include the overall budget deficit as a percentage of GDP and an inflation rate of less than 3 percent as well as minimal central bank financing of budget deficits. The AACB secretariat has been mandated to collect data on the convergence criteria and compile reports to be tabled annually at the Assembly.

5.25.10 European Union and African, Caribbean and Pacific (EU-ACP)

The first joint ACP-EU meeting on the negotiations of the proposed Economic Partnership Agreements (EPAs) was held in Brussels in October 2002. The main issue on the agenda was the structure of procedures for negotiation. In this regard a two-tier approach for the negotiation has been adopted, namely an All-ACP phase (phase 1) and a Regional/ national phase (phase 2). During phase 1 of the negotiations, all ACP countries will take part and negotiations will include all issues of common interest, including market access etc. In phase 2, the negotiations will be based on identified regional blocks or individual countries.

The first phase of the negotiations is expected to be extended until September 2003, while the second should then follow. For Namibia the crucial question concerns the trade block in which the country will negotiate during phase two- SACU (BLNS), SADC or COMESA? A study has been commissioned to research this issue critically and recommend the most viable regional negotiation configuration for Namibia accordingly.

5.26 Public Finance

The major stance of the budget of the fiscal year 2002/03 was to stimulate and support economic development and employment creation. Among policies and programmes targeted are the establishment of new institutions such as the Namibia Development Bank, development of new infrastructure, such as the northern railway extension and the tarring of new roads. Efforts are also geared to develop human resources through improved education and training programmes, notably the establishment of Science Education Centres and a Centre for Innovation in Entrepreneurship and Technology.

During the year under review, the Government also adopted a number of policy decisions as well as other initiatives to bring about improvements in the fiscal policy management of the country. These include amongst others:

- Ministries are required to motivate their bids for funds during the Budget hearings in terms of what the public expect them to achieve;
- The reformulation of the State Finance Act, which will strengthen the legal framework for expenditure management;
- A comprehensive tax review aimed at improving the administration of the tax laws and to counter possible tax evasion;
- The decision by cabinet to put benchmarks on some important fiscal variables over time, e.g. total expenditure should be limited to 30% of GDP, budget deficit not to exceed 3.2% of GDP and central government debt to be limited to 25% of GDP (Table 4.10)
- The two VAT rates of 15% and 30% were changed to a singular rate of 15% with effect from October 1, 2002.

5.27 African Competitiveness

The African Competitiveness Report of 2000 identified the lack of human resources as one of the principal obstacles to the attraction of Foreign Direct Investment (FDI) into Namibia. Investment in human resources should therefore continue to occupy a central position in Government Expenditure. The declining trend does not seem to be addressing the problem and therefore a reverse in the trend is necessary. On the other hand, the allocation to the health sector has been fairly stable fluctuating between a high of 11.0% and a low of 9.7 %. The expenditure on the economic services contracted substantially from 15.2 % in 1999/00 to 7.0% in 2002/03. The contraction in this sector was expected mainly due to the outsourcing of some of the government departments' services and the completion of some major investment projects. Of concern is the allocation to general government services, which rose from 29.3% in 1999/00 to 36.4% in 2002/03. This trend does not augur well considering the need to allocate more funds to the productive sectors with the purpose of stimulating a higher economic growth.

5.27.1 External Sector

Exports are expected to grow by 6.3% in 2003 in real terms from 4.6% in the preceding year. The increase in export will come from an increase in the export of some metals (zinc, copper and gold), livestock (beef and mutton) and agricultural produce (dates, ostriches and grapes). As a percentage of GDP, exports are projected to increase from 47.8% in 2002 to 52.8 % in 2003. In real terms, imports are projected to increase moderately from an estimated 5.9% in 2002 to 6.1% in 2003, largely due to an improvement in domestic demand. As a percentage of GDP, it is projected to increase from 53.4% in 2002 to 55.5% in 2003. As a result of these developments Namibia trade deficit is projected to narrow significantly in 2003 as compared to the previous two years. Consequently the current account surplus is se to recover to 4.7 %, as a percentage of GDP in 2003 from 3.1% in 2002.

5.27.2 Government Expenditure

Total government expenditure is projected to grow by 6.8% in 2003/04 compared to 9.7% increase in 2002/03. This increase is mainly due to the envisaged salary increase, an additional employment of ex-combatants in the police force, and the tourism related activities. As a percentage of GDP, total government expenditure is projected to decrease from 35.8% in 2002/03 to around 33.4% in 2003/04.

The Namibia's Chamber of Commerce had recognized that there was an absence of timely information about the Namibian Central Business Area (CBA). There was a great need for information for investment decision making, commercial efforts, and continued revitalization of the business area. One of the research methodology was to conduct a survey of chief executives of business firms in the CBA. The purpose of this survey was to gather information concerning the number of employees working in Namibia's CBA, employees, salary distributions, proposed future investment in Namibia' various regions, and executives' attitudes toward a variety of dimensions of Namibia's industrial area. For the purpose of this research a survey of the chief executives of business firms within Namibia's CBA was conducted.

With high spending on personnel and future interest payments, it looks set that the expenditure may not be contained below 30% in the medium term, as recommended in the latest Medium Term Expenditure Framework 2002/03-2004/05. Expenditure growth is expected to hover around 6.6% on the average for the 2002/03- 2005/06 period whereas as a percentage of GDP, it is projected to remain on average at 31.6 %. There may therefore still be a need to engage in further expenditure restraint and measures to keep total expenditure within the manageable limit.

These measures could involve wage restraint through moderation in new hiring and the restructuring of the State Owned Enterprises (SOE's). In this regard, the establishment of Central Governance Agency, which aims to ensure better management and operational efficiency in SOE's is a step in the right direction.

Debt service repayments as percentage of GDP increased from 2.1% in 2001/02 to 2.7% in 2002/03 due to repayments of medium term bonds. However debt service repayments as percentage of GDP are projected to decline substantially in the short- term (2.2% in 2003/04) before increasing again to the same level in the medium term due to repayment of the bond and as repayment as principals on foreign loans is commencing. These increases are especially justified in the current environment of high interest rates and volatile exchange rate.

5.27.3 Namibia's Budget Deficit

Namibia's budget deficit is projected to be around 3.0% of GDP in 2003/04, down from a revised 3.8 % of GDP in 2002/03. This reduction in the fiscal deficit is mainly due to a faster decline in the total expenditure relative to the slowdown in revenue. The fiscal deficit is projected to be 3.4% of GDP in 2004/05.

5.27.5 Government Debt

Government debt (Table 5.10) is revised at 26.4% of GDP in 2002/03, and is projected to increase to around 26.7 and 27.1% of GDP by 2003/04 and 2004/05 respectively. This increase is due to the projected average budget deficit of around 3.2 % of GDP over the forecasts period. The debt to GDP ratio remains still above the recommended limit of 255 contained in the MTEF.

The economic growth is projected to recover significantly to slightly above 4% in 2003, which is mainly attributed to the increased zinc output. The forecast growth may further be realized if there is a downward trend in inflation and interest rate as well as an improvement in commodity prices and favourable climatic conditions.

There exists downside risks to the above growth forecast, which include the following global factors:

- The possibility that the world economic recovery could proceed at a pace which is currently slower than expected. As a result, the expected rise in commodity prices may not materialize fully.
- The possibility of a severe drought should not be ignored, which could result in severe consequences for the agricultural sector, food imports and inflation.
- The expected volatility in the fuel price due to developments in the Middle East and the War on Iraq, could pose a further inflationary risk to the local economy.
- The new SARS outbreak could affect the world economy and course economical risks to the global economy.

CHAPTER 6

CONCLUSIONS

6.1 Overall Attractiveness of Namibia for FDI

The overall attractiveness of Namibia as a potential FDI market site depends on balancing of benefits costs & risks associated with business operations, which is generally lower in politically stable democratic nations like Namibia.

Namibia like most WTO countries increasingly encourages FDI by offering economic & development incentives. WTO encourages progress on liberalizing rules for FDI, therefore the MNC must negotiate terms of investment with Namibian government.

Agreement should benefit both parties involving compromises. Outcomes of negotiations are determined by MNC bargaining powers. FDI supplies capital, technology & management resources which can benefit the Namibian economy.

Dealing in multiple currencies is a requirement for international business by creating risks & significantly alters attractiveness of investments. MNC can use foreign exchange market to minimize risks by investing spare cash in short-term money market accounts, thereby engaging in currency speculation.

This lead this researcher to conclude that, other factors being equal, the benefit, cost risk trade-off will be more favourable in politically stable Namibia that has a free market system. FDI can make positive contributions to Namibia by supplying capital, technology & management resources that would otherwise not be available.

Being a small and open country, Namibia can only achieve high levels of economic growth if it has free access for its export products to the larger African market. This can only be realized once all barriers to trade among African countries are completely eradicated. Of concern however is Namibia's membership in the various regional bodies whose activities and interest overlap. The programmes of SADC and COMESA are for instance very similar and Namibia has membership in both groups. This duplication of activities could be costly and should be avoided.

The challenge facing Namibia is the selection of membership and on which regional initiative the country should concentrate at present and the possible initiatives which should be temporarily suspended.

With the deepening and acceleration of SADC integration agenda, aiming at becoming a vibrant economic and political bloc and key player in the world economic area, the region is increasingly enhancing its capacity and position to minimize the risks of globalization and take advantage of the opportunities it presents in order to effectively deal with the pervasive problems of extreme and overall poverty.

Furthermore, the continued political will and commitment in SADC to work collectively to ensure the realization of the ultimate goal of the integration process; namely to systematically tackle the problem of poverty, improve the standard and quality of the life of people in Southern Africa and support the socially disadvantaged. Examining the nature and magnitude of poverty in the region as well as its determinants is therefore of utmost importance especially the policy options and a deliberate strategy, which needs to be mounted to substantially reduce poverty on a sustainable basis.

In bidding for FDI, the Namibian Government has to balance the aim of maximizing the benefits that accrue to Namibia, while avoiding strict red-tape policies. Ultimately, FDI cannot be forced because foreign investors can invest elsewhere. However, there is also great potential and opportunity in SADC to address the highlighted challenges. The region is richly endowed with human, natural, agricultural and mineral resources. With a population of about 190 million people and a combined GDP of US\$176 billion, the SADC region remains one of the largest unexploited markets in the world. With sound macro-economic fundamentals and relatively good infrastructure in place, SADC has created some of the prerequisites for economic growth.

FDI will be forthcoming depending on market attractiveness. Although from Namibia's perspective, FDI depends upon a lucrative Namibian economy.

To squeeze maximum benefit from Namibian FDI, a sectoral approach should be adopted to FDI promotion depending on our negotiating power. In this way some of the flexibility of the discretionary approach could be gained without throwing away the benefits of a more rule-based system.

6.2 Promote Africa Programme

'SADC regional capacity building' was the focus of a recent meeting by the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank, as part of their 'Promote Africa' programme, attended by senior SADC Investment Promotion Agencies.

Two issues were highlighted by Dr Ken Kwaku, African program manager of MIGA namely, the importance of being well equipped and skilled to succeed in attracting FDI and the trend of Africans to save outside the continent. African off-shore saving is as high as one-third of the continents GDP and it was stressed that governments should not, 'do for the foreigner what you are not prepared to do for the local,' investor.

The keynote speech delivered by the Governor of Central Bank of Namibia, Tom Alweendo, states that retaining FDI was a continuing process and stressed the importance of consistency in dealing with FDI. Namibian FDI, investment centres, tax incentives, subsidies and other monetary policies and incentives, are the initial steps for economic improvement.

Foreign investors still have a negative idea of Africa. He called for a doubling of efforts in implementing global strategies and new approaches including targeting of specific investors instead of the current market approach.

Dr Kwaku listed some other types of incentives, for enhancing FDI attractiveness, being a legal system with clearly defined investment or business codes and faster tax administration with less bureaucratic red tape. Namibia needed to develop detailed sector portfolios to identify competitive edges and to customize incentives to target specific investors. Dr Kwaku noted positive steps taken by Namibia Investment Centre, headed by the CEO Mr David Nuyoma, and the Overseas Development Corporation.

The Namibian Minister of Trade and Industry, Honourable Hidipo Hamutenya vocalised Namibia's membership of SADC in 1990:

'We have remained steadfast in our commitment to the regional and cooperational integration objectives. We are among the first countries to implement the Free Trade Area (FTA). We do not see the elimination of trade barriers with other SADC member States as a threat to our economy. Rather in it we see the enormous opportunity of an expanded economic space for us to exploit by increasing the competitiveness of our products. This is being done through a focused and connected industrial development programme. It is pleasing to note that other countries within SADC are paying serious attention to the challenges of economic reform and the imperative industrialization. To secure our rightful place with SADC and global community of nations, Namibia is also forging ahead with the implementation of programmes to further expand our infrastructure and enhance the attractiveness of our investment climate. Concrete measures are being taken to improve the national telecommunications network. With the recent application of synchronous digital hierarchy (SDH) technology, Namibia is consolidating its world-class national fibres optic network. Through this system, all Namibians, even those in the remote areas, will have extensive access to modern voice and data transmission services.'

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I
ANNEX I
TOWN CLERK INTERVIEW
CENTRAL BUSINESS ENTERPRISES

Interviewers initials _____ Date _____

Town: _____

Name of Chief Executive/ Town Clerk _____

As part of the survey of Namibian Central business District there are some town -wide topics on which the University of Natal, MBA researcher, Ms M.Shikongo (Student no. 201509556) would value your knowledge.

1a).Does the Local Authority of Windhoek outsource any of its functions? Yes/ No.

b) If yes, list which type of services are outsourced.

c) If yes, does any of this business go to local enterprises? Yes/ No

d) If no, are there particular limiting factors in the decision? State.

2. What specific actions has the Local Authority taken to support development of enterprises in Windhoek. State.

3. The Ministry of Regional, Local Government & Housing has a policy for local authorities to adopt best practices on encouraging enterprises. Indicate aspects of these.

a) creating a one-stop facility for the processing of permits:

b) setting of targets for maximum possible time to process applications:

c) an annually published plan for provision of sites, premises and other infrastructure:

d) development of long term plans which require that specific provisions be made :

Thank you for your co-operation in this regard.

II.

ANNEX 2

Survey of Namibian Enterprises

Instructions

This is a survey concerning firms in Namibia's Central Business District. As response to this questionnaire, answer only about your firm's Central Business Area operations.

Is the person to whom this letter was addressed the 'right' person to answer the questionnaire? If not, please give the letter and questionnaire to the person who is best able to respond to the questionnaire and ask him or her to complete the questionnaire for the MBA researcher, Ms M. Shikongo, University of Natal (Stud.no 201509556)

PART A : PROFILE

State name of business _____
Name of interviewee _____
Gender of interviewee _____
Age of interviewee _____
Position in business _____

EXECUTIVE OPINION SURVEY

First, I would like to ask you some general questions about Namibia's Central Business Area (CBA). Please check (✓) your answer.

1. Overall, how would you rate business conditions in Namibia's Central Business Area?

Excellent ☐ Good ☐ fair ☐ Poor ☐ Very Poor

2. ☐ Would you say Namibia's Central Business Area is more or less suitable for your business now than it was five years ago? (if not in operation five years ago, use the data when you started your business.)

☐ More suitable ☐ Same ☐ Less suitable ☐ No opinion

3. If past trends continue, would you predict there will be fewer, more or the same number of firms in Namibia's Central Business District next year?

☐ Fewer ☐ More ☐ Same

The following statements are statements that some businessmen made about Namibia's Central Business Area.

Please indicate your degree of agreement with the statement below. Please circle if you strongly agree, mildly agree, Neither agree nor disagree, mildly disagree, or strongly disagree.

- | | | | | | |
|-----|---|-----------------|-------------------------------|--------------------|----------------------|
| 4. | Namibia's Central Business Area is an active retail centre (shopping complex). | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 5. | The future of Namibia's Central Business Area looks very bright. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 6. | One major problem in the Namibia Central Business Area is an increasing crime rate. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 7. | In the next five years there will be a decreasing emphasis on the Namibia's Central Business Area as a retail shopping Complex. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 8. | Occupying an office in the Central Business Area rather than elsewhere in the city has more advantages than Disadvantages. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 9. | Off-street parking in the Namibia Central Business Area is inadequate. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 10. | In the next five years the Central Business Area will lose its share of occupied office space to other parts of the city. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 11. | The Namibian Investment Centre resorting under the Ministry of Trade Industry is a major foreign investments stimulus to Namibia and its economic future as a SADC member State | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 12. | In the next five years your business will move out of Namibia's Central Business Area. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |
| 13. | The Namibian government is very willing to respond to problems in Namibia's Central Business Area. | | | | |
| | Strongly
Agree | Mildly
Agree | Neither Agree
nor Disagree | Mildly
Disagree | Strongly
Disagree |

We would now like to ask you about your firm's business activity in the Namibian Central Business Area.

If your company has offices, warehouses, factories, etc. at other locations, please provide only information about your operation in the Namibia Central Business Area.

To determine what actions are needed to improve business conditions in your business area, it is essential that we know more about the current level of business activity in Namibia's CBA.

Responses will be kept CONFIDENTIAL and used only to analyze the entire business area and for classification purposes (e.g. small vs. large firms). The data will NOT be used in any way that will allow determination of individual firms or affect the competitive position of your type of firm.

14. What is your primary activity?

Manufacturing

Services

Transportation and

Retail trade

Construction

public utilities

Wholesale trade

Agriculture, forestry, fishing

Other (please specify)

Finance, insurance, real estate

Mining

15. Does the owner(s) of the business own or leasing the premises? _____

16. What was your average number of paid full-time employees in the Namibia Central Business Area last year?

17. Please estimate how many of these employees are managerial and how many are non-managerial.

_____ Number of managerial employees

_____ Number of non-managerial employees

18. What was your average monthly payroll for the firm (before deductions) in the Namibia Central Business Area last year?

19. What was the distribution of your firm's payroll to full-time employees in the Namibia Business Area?

Annual Salary/Wage Range

Number of Employees

Under N\$50,000

N\$ 50,000-N\$79999

N\$ 80,000-N\$99,999

N\$ 100,000-N\$150 000

N\$ 160,000 or over

20. Approximately how much office space does your company or business organization occupy in the Namibia Central Business Area?

_____ Office space in square meter

_____ Other space in square meter

21. Which of the following assets do you have in your business? (Premises/ Machinery/ Furniture/ Vehicles)

22. What is the current estimated value of these assets

Premises

Machinery

Furniture

Vehicles

N\$

N\$

N\$

N\$

23. Who are the customers of the business? (General public/ Local shops/ Wholesalers/ Agents/ Manufacturers/ Constructors/ Government (local or national)/ Tourist Agents)

24. Do you have any regular business from specific buyers? _____
25. During the last 12 months, how far away from here were any products/ services sold? (Locally/ Over 25km/ Exported)

26. Does your business operation in the Namibia Central Business Area generate sales revenue from customers buying within the Central Business Area?
Yes (Go to Question 27)
No
27. If yes, please estimate your Namibian dollar sales volume for the last fiscal year from customers buying within Namibia's Central Business Area. Please attach Financial Reports if possible.
N\$ _____
28. Comparing with a year ago (2001), has sales/ turnover increased in 2002? Indicate the amount in N\$.

29. How will your business perform in 2003? In terms of turnover?
(Grow strongly/ Grow slightly/ Remain constant/ Fall strongly/Fall slightly)

30. How will your business perform in 2003? In terms of employment?
(Grow strongly/ Grow slightly/ Remain constant/ Fall strongly/Fall slightly)

31. In what year did you start your business within Namibia's Central Business Area?

32. Do you intend to invest in capital improvement to expansion or remodeling of your Central Business Area facility in the next five years?
_____ Yes (Go to Question 24)
_____ No (Thank you for completing the questionnaire)
_____ Uncertain (Thank you for completing the questionnaire)
33. If yes, approximately how much do you intend to invest?
N\$ _____
34. Do you intend applying for financial facilities to secure investment?

35. Is the business a member of any Business Association, such as The Namibian Chamber of Commerce? State name.

PART B : TRAINING

1. Have you attended any management courses? If so, how many and through which institutions?

2. Which topics were covered ?
Marketing/ Costing & Pricing/ Stock control/ Bookkeeping/ Banking/ Production/ Buying/ Human Resources/ Legal aspects / Other? Please stipulate.

3. Have you attended a technical course/ If yes, who organised it?

4. Indicate topics covered.

PART C: SUPPORT SERVICES

1. What are the major problems your business is facing ? Please tick in appropriate column.

Type of problem	Major	Small	None
Lack of management training			
Lack of technical training			
Lack of marketing information			
Lack of credits for working capital			
Lack of credits for investment			
Lack of labour skills			
Lack of demand			
Lack of payment (late payment)			

2. What type of support do your business need for improvement?

Support	Need	Improvement	None
Market information			
Vocational training			
Technical advice			
Production			
Business management			
Credit for working capital / investment			
Sub-contracting			
Transport			
Water			
Electricity			
Communication facilities/ equipment			

3. Have you heard of the following organisations?

Organisation	Heard	Used	Not heard
Institute of Management & Leadership Training (IMLT)			
Co-operation of Development (CD)			
Namibian Development Trust (NDT)			
Namibia Development Corporation (NDC)			
Development Fund			
Chambers of Commerce and Industry			
Namibian Investment Centre			
Rossing Foundation			
First National Bank			
Standard Bank			
Commercial Bank			
Agri Bank			
Bank Windhoek			

Thank you very much for your cooperation. Please return the completed questionnaire and other relevant information in the postage-paid envelope at your earliest convenience. Telephonic follow-up will be done if questionnaire is not returned.

ANNEX III



Republic of Namibia

Foreign Investment Act

Commenced 7 July 1992 as amended by
Act No. 24, 1993, Foreign Investment Amendment Act 1993

ACT

**To make provision for the
promotion of foreign investments in Namibia**

(Signed by the President on 19 December 1990)

ARRANGEMENT OF SECTIONS

Section

1. Interpretation

PART I

*ADMINISTRATION OF ACT AND PRINCIPLES REGARDING
FOREIGN INVESTMENT*

2. Administration of Act
3. Business activities of foreign nationals

PART II

STATUS INVESTMENTS

4. Minister's power to issue Certificate of Status Investment
5. Investments eligible for Certificate of Status Investment
6. Application for a Certificate of Status Investment
7. Grant of a Certificate of Status Investment

RIGHTS AND OBLIGATIONS OF HOLDERS OF CERTIFICATES

8. Availability of foreign currency for certain payments
9. Availability of foreign currency for transfer of profits and proceeds of sale
10. Retention of foreign currency obtained from sale of exported goods
11. Compensation in case of expropriation
12. Obligations of holder of Certificate
13. Dispute settlement in respect of Special Status Investments

AMENDMENT TRANSFER AND CANCELLATION OF CERTIFICATE

14. Amendment and transfer of a Certificate
15. Cancellation of a Certificate

PART III

MISCELLANEOUS

16. Offences
17. Regulations
18. Temporary provision relating to foreign exchange
19. Application
20. Short title and commencement

BE IT ENACTED by the National Assembly of the Republic of Namibia, as follows:

Interpretation

1. (1) In this Act, unless the context otherwise indicates: "Bank of Namibia" means the Bank of Namibia established by section 2 of the Bank of Namibia Act, 1990 (Act 8 of 1990);

"business activity" means any activity engaged in for gain or reward in any part of the economy of Namibia;

"Certificate" means a Certificate of Status Investment issued under this Act;

"company" includes any other body corporate;

"enterprise" means the business or undertaking in which foreign assets are invested and in respect of which a Certificate has been issued;

"foreign assets" includes freely convertible foreign currency, and any currency, credits, rights, benefits or property, whether corporeal or incorporeal, obtained by the expenditure of foreign currency or, except as regards currency of Namibia which has not been obtained by the expenditure of foreign currency, belonging to a foreign national, and the returns derived from such credits, rights, benefits or property;

"foreign national" means-

(a) a person who is not a citizen of Namibia;

(b) a company incorporated under the laws of any country other than Namibia;

(c) a company incorporated within Namibia in which the majority of the issued share capital is beneficially owned by foreign nationals within the meaning of this definition;

"Government" means the Government of Namibia and includes any body or institution established by or under any law;

"the Minister" means the Minister of Trade and Industry;

"Namibian" means a citizen of Namibia and includes a company incorporated under the laws of Namibia in which the majority of the share capital is owned by Namibians within the meaning of this definition.

- (2) At any time before a currency for Namibia has been established under section 19 of the Bank of Namibia Act, 1990 (Act 8 of 1990), an investment in Namibia by a foreign national of rand in the currency of the Republic of South Africa shall be deemed to be an investment of foreign assets notwithstanding that rand will during that period also be the currency for Namibia.

PART I

ADMINISTRATION OF ACT AND PRINCIPLES REGARDING FOREIGN INVESTMENT

Administration of Act

2. Subject to the laws governing the public service, there shall be established in the Ministry of Trade and Industry a division, to be known as the Investment Centre, to assist the Minister in the administration of this Act.

Business activities of foreign nationals

3. (1) Subject to the provisions of this section and the compliance with any formalities or requirements prescribed by any law in relation to the relevant business activity, a foreign national may invest and engage in any business activity in Namibia which any Namibian may undertake.

(2) For the purposes of any law governing the establishment and carrying on of any business activity or the taxation of the income, or any other aspect, of any business activity, a foreign national shall be in no different position than any Namibian, except as may be otherwise provided by this Act.

(3) No foreign national engaged in a business activity or intending to commence a business activity in Namibia shall be required to provide for the participation of the Government or any Namibian as shareholder or as partner in such business, or for the transfer of such business to the Government or any Namibian: Provided that it may be a condition of any licence or other authorisation to, or any agreement with a foreign national for the grant of rights over natural resources that the Government shall be entitled

to or may acquire an interest in any enterprise to be formed for the exploitation of such rights.

(4) The Minister may, by notice in the *Gazette*, specify any business or category of business which, in the Minister's opinion, is engaged primarily in the provision of services or the production of goods which can be provided or produced adequately by Namibians, and, with effect from the date of such notice, no foreign national shall, subject to the provisions of section 7(3), through the investment of foreign assets, become engaged in or be permitted to become engaged in any business so specified or falling within any category of business so specified.

(5) Any law relating to natural resources or any licence or other authorisation granted under such a law conferring rights for the exploitation of such resources, may provide for the granting or enjoyment of such rights to or by Namibians on terms more favourable than those applicable to foreign nationals.

**[S. 3 (5) added by s. 1 of Act 24 of 1993]*

PART II STATUS INVESTMENTS

Minister's power to issue a Certificate of Status Investment 4. If the investment of foreign assets in Namibia is an eligible investment as defined in section 5, the Minister may, subject to the provisions of this Act, issue a Certificate of Status Investment in respect thereof and the provisions of sections 8 to 13 shall apply in relation to the enterprise in respect of which the Certificate has been issued.

Investments eligible for Certificate of Status Investment 5. (1) For the purposes of this Act, an investment is an eligible investment:
(a) if it is an investment, or proposed investment, in Namibia by a foreign national of foreign assets of a value of not less than the amount which the Minister may determine from time to time by notice in the *Gazette* for this purpose;
(b) if it is a reinvestment, or proposed reinvestment, by a

foreign national of the profit or proceeds of sale of an enterprise specified in a Certificate, irrespective of the amount of such reinvestment.

(2) Where the investment is for the acquisition of shares in a company incorporated in Namibia, the investment shall, notwithstanding that the value thereof is equal to or exceeds the amount determined under subsection (1) (a), qualify as an eligible investment only if:

- (a) not less than ten per cent of the share capital of the company is held or will, following the investment, be held by the foreign national making the investment; or
- (b) the Minister is satisfied that the foreign national making the investment is or will be actively involved in the management of the company.

(3) Where the investment is for the acquisition of a participating share in an unincorporated joint venture, the investment shall, notwithstanding that the value thereof is equal to or exceeds the amount determined under subsection (1) (a), qualify as an eligible investment only if:

- (a) not less than ten per cent of the participating share of the joint venture is held or will, following the investment, be held by the foreign national making the investment; or
- (b) the Minister is satisfied that the foreign national making the investment is or will be actively involved in the management of the joint venture.

*Application for a
Certificate of
Status Investment*

6. (1) A foreign national may apply to the Minister for a Certificate of Status Investment in respect of an investment which qualifies as an eligible investment in terms of section 5.

(2) An application for a Certificate of Status Investment shall be in the prescribed form, which shall require such information from the applicant as may be necessary to enable the Minister to consider applications in accordance with subsection (3).

- (3) In considering an application for a Certificate of Status Investment, the Minister shall have special regard to:
- (a) the extent to which the proposed investment is likely to contribute towards Namibia's development objectives;
 - (b) the extent to which the enterprise in which the proposed investment is to be made will utilize Namibian resources, including labour and natural resources so as to contribute to the economy, by, *inter alia*:
 - (i) increasing employment opportunities in Namibia;
 - (ii) providing for the training of Namibians;
 - (iii) earning or saving foreign exchange;
 - (iv) generating development in the less developed areas of Namibia;
 - (c) the extent to which the enterprise in which the proposed investment is to be made will contribute to the advancement of persons within Namibia who have been socially, economically or educationally disadvantaged by past discriminatory laws and practices or will facilitate the implementation of policies and programmes aimed at redressing social, economic or educational imbalances in the Namibian society;
 - (d) the extent to which the enterprise in which the proposed investment is to be made will make provision for equal opportunities for women;
 - (e) the impact which the activities of the enterprise in which the proposed investment is to be made is likely to have on the environment and, where necessary, the measures proposed to deal with any adverse environmental consequences.

*Grant of a
Certificate of
Status Investment*

7. (1) If the Minister is satisfied that the investment in respect of which application for a Certificate is made will promote the interests of Namibia, the Minister may issue

a Certificate in respect thereof.

(2) Every Certificate shall state:

- (a) the name of the foreign national to whom it is granted;
- (b) the name of, and give a description of, the enterprise in which the investment is or is to be made;
- (c) the amount or value of, and give a description of, the foreign assets invested or to be invested and, if they have not yet been invested in the enterprise, the period or periods within which they shall be invested;
- (d) the proportion of the foreign assets invested or to be invested to the total assets of the enterprise, and where the investment involves the acquisition of shares in a company, particulars of the shareholding;
- (e) that the implementation of such of the proposals forming part of the application for the Certificate as are set out in the Certificate shall constitute an obligation of the holder of the Certificate and a condition of the continued validity of the Certificate; and
- (f) such other matters as the Minister may deem necessary or expedient for the purposes of this Act.

(3) A notice by the Minister under section 3 (4) shall not affect the validity of any Certificate issued before the date of such notice in respect of any enterprise which is an enterprise specified in such notice or which falls in any category of business so specified, or any right, privilege or benefit accorded by this Act to the holder of such a Certificate.

*Availability of
foreign currency
for certain
payments*

8. (1) Notwithstanding the provisions of any other law, the Bank of Namibia shall ensure that there is available for purchase by the holder of a Certificate, at the request of that holder, freely convertible foreign currency which the holder may use without any restriction:

- (a) to repay, in accordance with a schedule approved by the Bank of Namibia, the principal sum of any loan in

foreign currency, the proceeds of which formed part of the foreign assets invested in the enterprise, and to pay, subject to the prior payment or the retention of any tax which may be due thereon, the interest and service charges on such a loan as they fall due;

- (b) to pay licence fees and royalties to persons ordinarily resident outside Namibia in respect of any intellectual property which is employed in connection with the enterprise, where such payments are due under an agreement which has been approved under any law relating to the transfer of technology or under an agreement approved by the Minister, with the concurrence of the Bank of Namibia, and specified in the Certificate.

(2) The provisions of subsection (1) shall, until the date of publication of the notice referred to in subsection (2) of section 18, have effect subject to the provisions of subsection (1) of that section.

*Availability of
foreign currency
for transfer of
profits and
proceeds of sale*

9. (1) Notwithstanding the provisions of any other law but subject to subsections (3) and (4) of this section, the Bank of Namibia shall ensure that there is available for purchase by the holder of a Certificate, at the request of that holder, convertible foreign currency which the holder may use without any restriction:

- (a) for the transfer out of Namibia of the profits of the enterprise or, where the enterprise is carried as a branch operation by a company which is a foreign national, for the payment to the head office of the company of remittances out of funds representing the branch profits, after deduction or retention in either case of any tax due;
- (b) where an investment to which a Certificate relates is an investment in a company, for the payment to shareholders or stockholders ordinarily resident outside Namibia of dividends out of the profits of the enterprise, after deduction of any tax due;
- (c) where the enterprise or any part of the undertaking

carried on by the enterprise is sold to any person ordinarily resident in Namibia, for the transfer out of Namibia of the proceeds of such sale;

- (d) where the enterprise is a company which has reduced its share capital in accordance with the provisions of the laws relating to companies, for the transfer out of Namibia of the sum by which the capital is so reduced.

(2) No provision of any law relating to exchange control shall apply to foreign currency which is the proceeds of the sale by the holder of a Certificate of the enterprise or any part of the undertaking carried on by the enterprise to a person not ordinarily resident in Namibia.

(3) Where, as evidenced by the Certificate, the foreign assets invested or to be invested in the enterprise constitute only a proportion of the total assets of the enterprise-

- (a) the provisions of paragraphs (a), (c) and (d) of subsection (1) shall apply only to the like proportion of the profits, proceeds of sale or sum, as the case may be referred to therein;

- (b) the provisions of subsection (2) shall apply only to the like proportion of the proceeds of sale referred to therein.

(4) If, in the opinion of the Bank of Namibia, the amount of foreign currency required to give effect to paragraph (c) or (d) of subsection (1) in respect of any enterprise would have a significant adverse effect on the external payments liabilities of Namibia, the appropriate foreign currency may be made available by such number of instalments of such amounts and at such intervals as the Bank of Namibia may determine.

(5) The provisions of this section shall, until the date of publication of the notice referred to in subsection (2) of section 18, have effect subject to the provisions of

	subsection (1) of that section.
<i>Retention of foreign currency obtained from sale of exported goods</i>	<p>10. (1) A Certificate may, on such terms and conditions as may be prescribed therein, provide for the retention outside Namibia by the holder of the Certificate of any payment, or a proportion of any payment, in foreign currency for goods produced by the enterprise or any undertaking carried on by the enterprise which are exported from Namibia.</p> <p>(2) Where a provision as contemplated in subsection (1) is made, no requirement of any law for the repatriation of the proceeds of the sale of goods exported from Namibia or for persons to offer such foreign currency to the Bank of Namibia or the Government shall apply to the foreign currency representing any payment or proportion of any payment referred to in subsection (1).</p> <p>(3) The provisions of section shall, until the date of publication of the notice referred to in subsection (2) of section 18, have effect subject to the provisions of subsection (1) of that section.</p> <p><i>*[S. 10(3) added by s. 2 of Act 24 of 1993]</i></p>
<i>Compensation in case of expropriation</i>	<p>11. (1) No enterprise, or part of an undertaking carried on by an enterprise, or interest in or right over any property forming part of such undertaking shall be expropriated except in accordance with the provisions of Article 16 (2) of the Namibian Constitution.</p> <p>(2) Where an enterprise or any part of an undertaking carried on by an enterprise, or any interest in or right over any property forming part of such undertaking is expropriated, the Government shall pay to the holder of the Certificate just compensation for such expropriation without undue delay and in freely convertible currency.</p>
<i>Obligation of holder of Certificate</i>	<p>12. (1) The holder of a Certificate shall:</p> <p>(a) bring to Namibia and invest in or apply for the benefit of the enterprise, the foreign assets to which the Certificate relates within the time or times provided in the Certificate;</p>

- (b) carry out the obligations agreed between the Minister and the holder and specified in the Certificate;
- (c) carry out such other obligations of the holder as are specified in the Certificate.

(2) If the holder of the Certificate fails to carry out the obligations referred to in this section within the time or periods, if any, specified in the Certificate, the Certificate may be cancelled in accordance with the provisions of section 15.

*Settlement of
disputes in
respect of
Status Investments*

13. (1) If a person to whom a Certificate is to be issued under section 7 so elects, the Certificate shall provide that any dispute between the holder of the Certificate and the Government in respect of:

- (a) any issue relating to the amount of, or any other matter in connection with, any compensation payable in a case of an expropriation as provided in section 11;
- (b) the validity or continued validity of the Certificate, shall be referred for settlement by international arbitration.

(2) Where a Certificate provides for the settlement of disputes by international arbitration, arbitration shall be in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law in force at the time when the Certificate was issued, unless by agreement between the Minister and the foreign national to whom the Certificate is to be issued, another method of settling the dispute has been chosen and the Certificate so provides.

(3) A Certificate which makes provision for international arbitration shall constitute the consent of the holder of the Certificate and the Government to submit to arbitration in the manner provided in the Certificate, and any award rendered in any such arbitration shall be final and binding on the holder of the Certificate and the Government.

(4) Nothing in this section shall be construed:

- (a) in a case where a Certificate does not make provision for the settlement of disputes by international arbitration, as impairing or limiting the right of the holder of such Certificate, in the event of a dispute, to any remedy available to the holder in any competent court in Namibia;
- (b) in a case where a Certificate does make provision for the settlement of disputes by international arbitration, as precluding the holder and the Minister from agreeing that any particular dispute shall not, as provided in the Certificate, be referred to international arbitration, but be heard and finally determined by any competent court in Namibia.

Amendment and transfer of a Certificate

14. The Minister may, with the consent, or on application, of the holder of a Certificate, as the case may be, amend a Certificate issued under this Act or transfer the Certificate to any other foreign national.

Cancellation of a Certificate

15. (1) Where:

- (a) the holder of a Certificate, or any person who acted on behalf of any applicant for a Certificate, is convicted of an offence under section 16 of this Act;
- (b) it is established to the satisfaction of the Minister that a Certificate was issued in consequence of incorrect information supplied by the applicant, or a person who acted on behalf of an applicant for a Certificate; or
- (c) the holder of a Certificate:
 - (i) fails or neglects to implement the proposals forming part of the application for the Certificate, as set out in the Certificate; or
 - (ii) fails or neglects to comply with any other obligation referred to in section 12,

the Minister may give the holder of the Certificate written notice to show cause, within thirty days or such longer period as may be specified in the notice, why the Certificate should not be cancelled.

(2) If a person to whom notice is given under this section

fails to comply with the notice, or fails to satisfy the Minister as to why the Certificate should not be cancelled, or in a case referred to in paragraph (c) of subsection (1), fails to satisfy the Minister that any past failure was not due to his or her fault and that adequate steps are being taken to comply with the requirements of the Certificate, the Minister may cancel the Certificate, but such cancellation shall not affect the right of the holder of the Certificate to refer any dispute relating to such cancellation to international arbitration or to the courts of Namibia in accordance with section 13.

PART III

MISCELLANEOUS

Offences

16. Any person who:

- (a) in or in connection with an application for a Certificate under this Act; or
- (b) for the purpose of obtaining or retaining any foreign currency as provided for in this Act, makes any statement which he or she knows to be false or does not believe to be true, or knowingly furnishes any false information, shall be guilty of an offence and liable on conviction to a fine not exceeding R100,000 or to imprisonment for a term not exceeding ten years, or to both such fine and such imprisonment.

Regulations

17. The Minister may make regulations prescribing -

- (a) the form and manner in which applications for Certificates shall be made, the information which shall accompany such applications and any fee payable on such applications;
- (b) the form and manner in which applications for or returns relating to foreign currency shall be made and the information which shall accompany such applications or returns;

- (c) the circumstances in which reports shall be made on the progress made in implementing the obligations of the holder of a Certificate and the information to be furnished in such reports;
- (d) such other matters as the Minister may deem necessary or expedient to prescribe for the purposes of this Act.

*Temporary
provision relating
foreign exchange*

18. (1) Until the date of publication of the notice referred to in subsection (2), the provisions of sections 8, 9 and 10 shall be construed as though they had been amended or modified to the extent necessary to take account of the obligations of the Government:

**[S. 18(1) substituted by s. 3(a) of Act 24 of 1993]*

- (a) under the Bilateral Agreement between the Governments of the Republic of Namibia and the Republic of South Africa, dated 4 April 1990, and any amendment or modification thereof; and
- (b) in the event of Namibia becoming a party to the Multilateral Monetary Agreement existing between the Governments of the Kingdom of Lesotho, the Kingdom of Swaziland and the Republic of South Africa, also under that agreement and any amendment or modification thereof.

(2) As soon as:

- (a) a currency for Namibia has been established under section 19 of the Bank of Namibia Act, 1990 (Act 8 of 1990); and
- (b) the agreements referred to in subsection (1) have expired or have been terminated or are no longer in effect so as to impose on the Government of Namibia obligations relating to the management of foreign exchange transactions, the Minister shall, by notice in the *Gazette*, declare that the provisions of subsection (1) this section, subsection (2) of section 8, subsection (5) of section 9 and subsection (3) of section 10 have expired and thereafter those provisions shall be of no further force or effect.

**[S. 18(2) substituted by s. 3(b) of Act 24 of 1993]*

Application

19. The provisions of this Act relating to Status Investments shall apply to any investment of foreign assets in Namibia, irrespective whether such investment was made before or after the commencement of this Act.

Short title and commencement

20. (1) This Act shall be called the Foreign Investment Act, 1990 and shall come into operation on a date to be fixed by the President by Proclamation in the *Gazette*.